

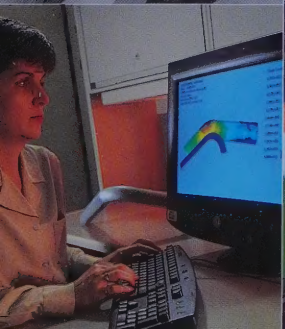
Wingate Learning Resource Ltd.
University of Alberta
3-13 Business Building
Edmonton, Alberta T6G 2G6

stelco

STELCO INC.
ANNUAL REPORT

2002

Proud People Creating Value



▶▶ Stelco Inc. is Canada's largest and most diversified steel producer. Stelco is involved in all major segments of the steel industry through its integrated steel business, mini-mills, and manufactured products businesses. Stelco has a presence in six Canadian provinces and two states of the United States.

Our Mission

Stelco is a market-driven, technologically advanced group of businesses that are committed to maintaining leadership roles as steel producers and fabricators. These businesses are dedicated to meeting the requirements of their customers and collectively providing an appropriate return for Stelco shareholders. The people in these businesses will achieve these objectives in healthy and safe environments through maximum development of their skills; by the creation and application of innovative process and product technology; through the identification and pursuit of new market opportunities; and by providing superior levels of quality and service.

Our Operating Priorities

- Create and maintain healthy and safe workplaces for our people.
- Preserve and enhance the environment through responsible and environmentally oriented operating practices.
- Maintain our asset base by keeping our operating facilities productive and up-to-date.
- Deliver continually improving levels of quality and service to our customers.
- Maintain close control of costs to ensure our competitiveness.
- Achieve superior levels of output and productivity.

Proud People Creating Value

Stelco's performance improved significantly in 2002 as a gradual recovery in North American steel markets led to improved demand and an increase in selling prices. More importantly, a number of strategic initiatives completed during the year position the Corporation to deliver enhanced shareholder value going forward.

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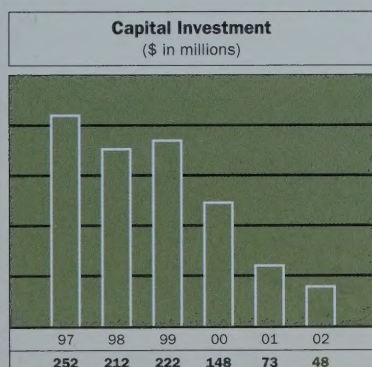
Financial and Operating Highlights

Years ended December 31, (\$ in millions except as indicated*)

| | 2002 | 2001 |
|---|----------|--------|
| Financial | | |
| Net sales | \$ 2,784 | 2,561 |
| Operating earnings (loss) | \$ 58 | (164) |
| Net earnings (loss) | \$ 14 | (178) |
| Earnings (loss) per common share | *\$ 0.04 | (1.74) |
| Common shareholders' equity | \$ 821 | 817 |
| Per common share | *\$ 8.03 | 7.99 |
| Expenditures for capital assets | \$ 48 | 73 |
| Long-term debt/equity – % of total capital | 34/66 | 39/61 |
| Operations | | |
| Operating earnings (loss) per ton shipped | *\$ 12 | (35) |
| Average number of employees† | 8,890 | 9,278 |
| Production of semi-finished steel – thousands of net tons | 5,149 | 4,959 |
| Steel shipments – thousands of net tons | 4,680 | 4,690 |

† Wholly owned business units and wholly owned subsidiaries.

Technology Investments



\$955 million invested since 1997.

Significant investments in new technologies and facility upgrades over the past six years have generated considerable improvements in productivity, product quality, and reduced costs.

Message to Shareholders

Stelco has emerged from the difficult steel market conditions over the past two and a half years as one of the leading North American steel companies.



James C. Alfano, President and Chief Executive Officer (left), and Frederick H. Telmer, Chairman.

Our financial performance improved significantly in 2002 as a gradual recovery in North American steel markets led to improved demand, particularly in the automotive, residential construction, and appliance sectors. In addition, steel supply in the United States was restricted by mill shutdowns and import restraint measures. This improvement in the North American steel market supply and demand balance resulted in a 9% increase in our average revenue per ton to \$595 compared with \$546 last year. As a result of this increased revenue and good operating performance, we generated net earnings of \$14 million or \$0.04 per share in 2002, a considerable improvement over the net loss of \$178 million or \$1.74 per share last year.

Stelco's investments in technology upgrades of \$955 million over the past six years, combined with the expertise and experience of our people, have resulted in expanded capacity, improved quality and customer service, increased sales of higher margin value-added products, significant productivity gains, and reduced costs in all our businesses. As a result, Stelco has emerged from

the difficult steel market conditions over the past two and a half years as one of the leading North American steel companies.

A number of strategic initiatives completed in 2002 solidly position Stelco to deliver continued growth and improved performance going forward.

The New Stelco Integrated Steel Business

On January 1, 2003, we restructured our Integrated Steel Business to more fully leverage the significant achievements made over the past six years at our two integrated steel operations. Stelco's two Integrated Steel Businesses at Hamilton and Lake Erie were combined into one Integrated Steel Business with a shared and renewed vision for growth and enhanced financial performance. Operating, sales, and administrative functions were combined to increase efficiency and enhance the effectiveness of the new organization and its people. In addition, the restructuring will increase our market presence as a leading North American provider of high-quality steel products. Going forward, we are confident that

this restructuring will support our key objectives of improved quality and service for our customers, increased returns for our shareholders, and better opportunities for our people to build on their considerable expertise. In conjunction with this restructuring, the following executive appointments were made January 1, 2003: Marcel Francoeur, Senior Vice President, Operations; Bill Missen, Senior Vice President, Commercial; Colin Osborne, Vice President, Stelco Hamilton; and Tim Huxley, Vice President, Corporate Affairs.

The Stelco Integrated Steel Business demonstrated improved performance in 2002. Stelco Lake Erie remains the most efficient and productive integrated steelmaking facility in North America, and generated consistent growth throughout the year while setting a number of production records. Stelco Hamilton benefited from its modernized and competitive front-end steelmaking facilities. The "E" blast furnace set consecutive quarterly production records facilitating the permanent closure of the "D" blast furnace, which will result in further improvements in productivity and costs going forward. Upgrades to Stelco Hamilton's rolling and finishing mills led to significant improvements in quality and service.

We put in place a new four-year labour agreement at Stelco Hamilton, extending to sixteen years the period of labour stability at that operation. The contract will allow us to build on the significant progress we have made in streamlining operations, reducing costs, and enhancing our value-added product capabilities.

Other Key Accomplishments Support Our Strategic Plan

Stelco's two mini-mills, AltaSteel Ltd. and Stelco-McMaster Ltée, are now positioned as growth businesses. AltaSteel is benefiting from the upgrade to its bar mill in 2001 and a new grinding rod heat-treating facility commissioned in the first quarter of 2002.

Unfortunately, Stelco-McMaster's growth was interrupted by a five-month strike. The strike ended January 6, 2003 with the ratification of a five-year labour contract that will enable Stelco-McMaster to regain its position as a leading North American mini-mill.

In our Manufactured Products segment, Stelwire Ltd. demonstrated solid growth in 2002, while Stelpipe Ltd. generated increased sales and productivity during the year.

The health and safety of our people and continuous improvement in our environmental performance remain our top operating priorities, and solid gains were made in both areas in 2002.

Early in the year, we signed a long-term, comprehensive collaboration agreement with Kawasaki Steel Corporation, Tokyo, Japan, one of the world's leading steel producers. This strategic partnership will support our technical, product, and market development activities in key markets such as automotive.

We also established a ten-year information technology (IT) services contract with EDS Canada to provide outsourced IT support and development services. Under the agreement, comprehensive new enterprise resource planning systems will be implemented that will generate significant operational efficiencies while further enhancing our commitment to superior customer service.

In addition to growing our business and improving earnings for our shareholders, our strategic plan objectives include maintaining a solid financial position, and progress was achieved in this area in 2002. In January, our balance sheet and cash reserves were strengthened with the successful completion of a \$90 million offering of convertible debentures. In addition, our long-term debt to equity ratio improved by five percentage points to 34/66 at year-end 2002.

▶ The restructuring of Stelco's integrated steel business in 2002 will generate maximum operational improvement and support Stelco's key objectives of improved quality and customer service and enhanced financial performance.



Trade Issues Demand Strong Action

Imports of unfairly priced steel continued to grow, occupying 40% of the total Canadian market in 2002, up from 37% last year. Stelco and other Canadian steel producers are working with government to develop effective remedies for the five products deemed to be injuring Canadian steel producers in the safeguard investigation. We are also addressing the surge in offshore import volume of other products in 2002.

Leadership in Corporate Governance

Stelco believes that good governance practices strengthen the Corporation and enhance shareholder value. As part of assuring Board effectiveness, the Board regularly reviews the skills, competencies, and experiences brought to the boardroom table by our directors. Good governance means a constructive working relationship between the Board and management. Our governance practices extend to strong and active committees that oversee and monitor critical activities and results. Ethical leadership is an important part of the governance philosophy at Stelco. You will find on our website (www.stelco.com) the Stelco Code of Ethics and Business Conduct. This important document sets out some guiding principles with respect to governance throughout the organization. It binds all of us – the employees, the officers, and the directors.

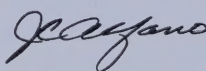
The essence of good governance is identifying and implementing those systems throughout the organization that provide reasonable assurances to investors that their interests are being looked after. This is important at Stelco at every level and is very much part of our “proud people creating value” sentiment. You will find more information on our corporate governance practices in the Management Proxy Circular for the Annual Meeting of shareholders of the Corporation to be held on April 29, 2003.

John Abell, Pierre Choquette, and Helen Sinclair retired as Directors in 2002. We greatly appreciate their valuable contribution. During 2002, we welcomed three new members to the Board of Directors: Courtney Pratt, Gary Lukassen, and Peter Dey.

Outlook

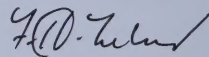
The United States steel industry is undergoing significant consolidation, which we view as a positive development for North American steel companies. The North American economy is forecast to grow steadily in 2003, which will support improved steel demand as the year progresses.

We were very pleased with the progress of our operating and financial performance in 2002, the result of the hard work and dedication of everyone at Stelco, and the continuing successful implementation of our strategic plan. Looking ahead, we are confident that we have strongly positioned the Corporation to meet our ultimate objective – to deliver enhanced value to our shareholders over the long term.



James C. Alfano
President and Chief
Executive Officer

Hamilton, Canada
January 30, 2003



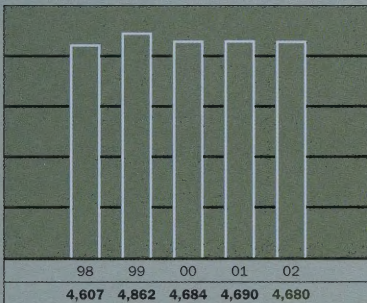
Frederick H. Telmer
Chairman

Operations Review

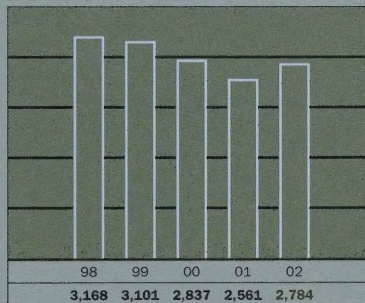
Operating Highlights

- Stelco Hamilton made considerable progress in streamlining operations, reducing costs, and improving quality and productivity.
- Record annual production was achieved at the Stelco Hamilton "E" blast furnace.
- Annual records were established at Stelco Lake Erie in coke production, ironmaking, steelmaking, and hot strip rolling.
- AltaSteel made excellent progress on its new in-line bar mill and grinding rod heat-treating facilities.

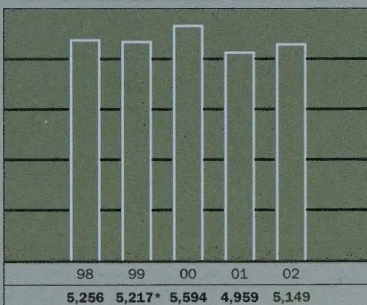
Steel Shipments
(thousands of net tons)



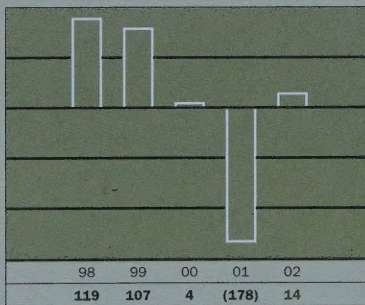
Net Sales
(\$ in millions)



Production of Semi-Finished Steel
(thousands of net tons)



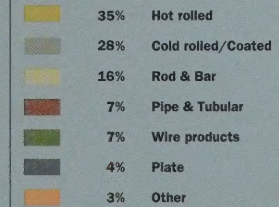
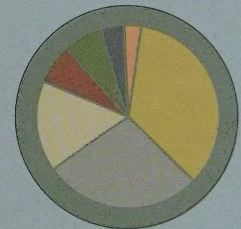
Net Earnings (Loss)
(\$ in millions)



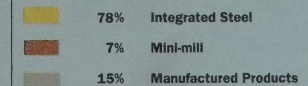
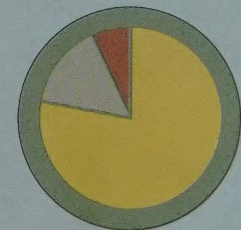
*Production reduced by 280,000 tons due to "E" blast furnace reline

2002

Net Sales by Product



Customer Sales by Segment



1 Integrated Steel Business

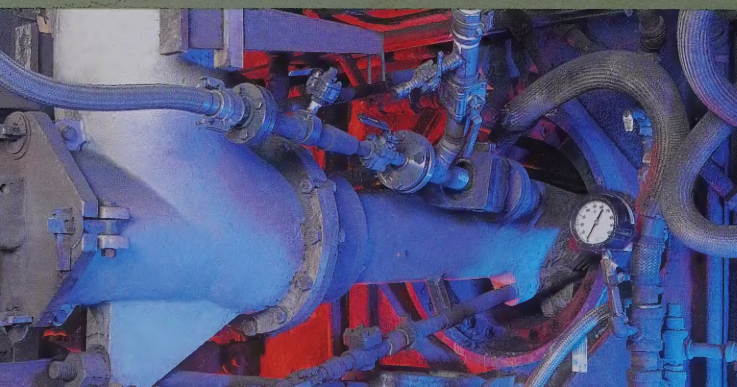
Stelco Lake Erie, North America's most efficient integrated steel producer, combines the latest state-of-the-art technologies with a highly skilled and trained workforce to supply North America's highest quality hot rolled sheet steel.

Stelco Hamilton is a modern, competitive steelmaker and producer of value-added steel products.

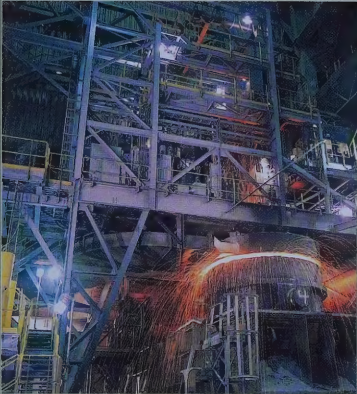
| <i>Company</i> | <i>Products</i> | <i>Net Sales/Shipments</i> | | | | | |
|---|---|--|--|--|--|--|--|
| Stelco Hamilton Hamilton, Ontario | Hot rolled, cold rolled, and coated sheet; plate; bar and rod | Millions of dollars Thousands of tons | 2000 1,620 2000 2,560 | 2001 1,322 2001 2,307 | 2002 1,504 2002 2,424 | | |
| Stelco Lake Erie Nanticoke, Ontario | Hot rolled sheet | Millions of dollars Thousands of tons | 2000 999 2000 2,077 | 2001 1,010 2001 2,350 | 2002 1,121 2002 2,384 | | |
| CHT Steel Company Inc. Richmond Hill, Ontario | Heat treatment of plate | Millions of dollars Thousands of tons | 2000 5 2000 20 | 2001 5 2001 24 | 2002 5 2002 22 | | |
| Stelco USA, Inc. Troy, Michigan | Processing, warehousing, and sale of steel products | Millions of dollars Thousands of tons | 2000 127 2000 136 | 2001 38 2001 42 | 2002 61 2002 77 | | |
| Z-Line Company Hamilton, Ontario | Zinc coating of cold rolled steel | Millions of dollars | 2000 50 | 2001 43 | 2002 45 | | |
| Baycoat Hamilton, Ontario | Application of paint finishes to rolled steel coils | Millions of dollars | 2000 87 | 2001 81 | 2002 81 | | |
| Chisholm Coal Company* Kentucky | Metallurgical coal | Millions of U.S. dollars | 2000 28 | 2001 22 | 2002 8 | | |
| Wabush Mines Newfoundland and Quebec | Iron ore | Millions of dollars | 2000 287 | 2001 228 | 2002 223 | | |
| Hibbing Mine Minnesota | Iron ore | Millions of U.S. dollars | 2000 318 | 2001 235 | 2002 298 | | |
| Eveleth Mines L.L.C. Minnesota | Iron ore | Millions of U.S. dollars | 2000 130 | 2001 151 | 2002 141 | | |
| Tilden Mining Company L.C. Michigan | Iron ore | Millions of U.S. dollars | 2000 280 | 2001 250 | 2002 308 | | |

Net sales include inter-unit transactions at market prices. For entities in which the Corporation has an ownership interest less than 100%, net sales represent 100% of the business activity of these entities.

*The mine ceased operation in May 2002 when coal reserves became fully depleted.



▶ The new oxy-coal injection system installed at Stelco Hamilton's "E" blast furnace, a technology unique to North America, is generating significant improvements in productivity and fuel efficiency through higher injected fuel rates.



With upgrades and capital investments totaling more than \$300 million over the past six years in its ironmaking, steelmaking, and rolling capabilities, Stelco Lake Erie remains North America’s most efficient integrated facility. Innovative technologies and equipment, like this new ladle trim station, have resulted in a 38% increase in steelmaking capacity, while enhancements to its rehear furnace and downcoilers generated a 41% increase in hot strip rolling capacity. In addition, employee health and safety has been significantly enhanced.

| <i>Employees</i> | <i>% owned</i> | <i>Major Markets</i> |
|------------------|----------------|--|
| 5,097 | 100 | Automotive, steel service centres, appliances, energy, construction, pipe and tube, and wire and wire products |
| 1,407 | 100 | Automotive, pipe and tube, energy, and steel service centres |
| 26 | 100 | Construction, pressure vessel, shipbuilding, and mining |
| 2 | 100 | Automotive |
| – | 60 | Automotive and construction |
| 240 | 50 | Construction, agricultural, transportation, appliances, and consumer products |
| 28 | 100 | Steel manufacturing and utilities |
| 720 | 45 | Steel manufacturing |
| 700 | 15 | Steel manufacturing |
| 437 | 15 | Steel manufacturing |
| 777 | 15 | Steel manufacturing |

2002 Highlights

Stelco Hamilton made considerable progress during 2002 in reducing costs and enhancing operational efficiencies while increasing customer satisfaction. Significant advances in ironmaking at the upgraded “E” blast furnace, which set an annual production record during the year, allowed for the permanent closing of the “D” blast furnace late in the year. As a result, Stelco Hamilton will be operating at a much lower cost. In addition, a new four-year labour agreement extends labour stability to sixteen years.

Stelco Lake Erie leveraged the significant investments in its steelmaking and rolling capacity to produce another year of strong performance. With the completion of important upgrade and refurbishment programs in 2001, costs were reduced and a number of annual production records were set in 2002, including coke production, ironmaking, steelmaking, and hot strip rolling. Stelco Lake Erie’s hot strip mill successfully completed its QS-9000 audit during the year. Quality recognition was received from a number of customers.

Integrated Steel Business

Late in 2002 Stelco combined its two integrated steel operations to form one unified business with a shared and renewed vision for growth and enhanced performance.

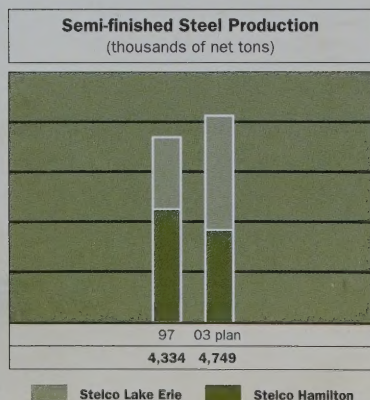
Over the past six years, considerable progress has been made at Stelco's integrated steelmaking operations. More than \$850 million has been invested in new technologies and facility upgrades, while training and educational programs have produced one of the most experienced and dedicated workforces in the industry.

Stelco Lake Erie has built on its solid position as North America's most efficient integrated steel operation. Recent investments have expanded annual steelmaking capacity 38% to 2.6 million tons, while annual hot strip rolling capacity has grown 41% to 2.85 million tons since 1997.

At Stelco Hamilton, significant advances have been made in streamlining the operation, reducing costs, and enhancing capacity to produce value-added products. Front-end operations have been modernized with the addition of pulverized coal injection technology, a refurbished coke oven battery, a relined and upgraded blast furnace, and improved steelmaking and casting facilities. These investments support major upgrades to the value-added rolling and finishing mills, including a high-quality cold rolling mill,

improved bar rolling capabilities, modernized galvanizing facilities, and an upgraded plate mill. As a result, productivity and quality at Stelco Hamilton have improved significantly.

On January 1, 2003, Stelco's two integrated steelmaking operations were restructured into one business with combined operating, sales, and administrative functions. The new Stelco Integrated Steel Business will provide improved quality and service for our customers, increased returns for our shareholders, and better opportunities for our employees to grow and develop.



In 2003 Stelco Lake Erie, the most efficient integrated steel-maker in North America, is expected to produce approximately 55% of the Integrated Steel Business's semi-finished steel, up from 44% six years ago. At Stelco Hamilton, higher output at the upgraded "E" blast furnace (record production in 2002) and the permanent closing of the "D" blast furnace will result in improved efficiencies and lower cost.



In April 2002, Stelco entered a long-term collaborative development agreement with Kiewit Steel Corporation of India, again, in addition to extending the current Joint Venture Commercial Agreement, which has expired since 1999. Stelco and Kiewit Steel work closely together in manufacturing and development of automotive steel used in today's most advanced state-of-the-art development of automotive technology in modular structural systems.

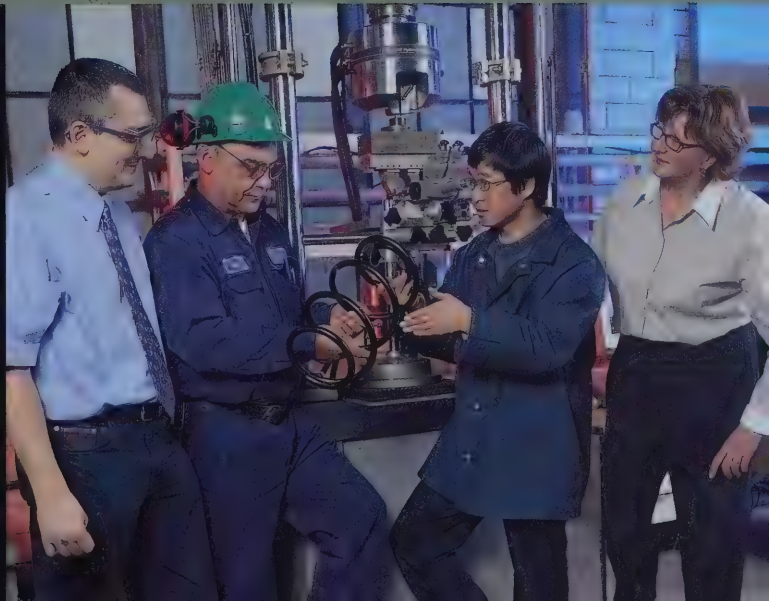


Utilizing state-of-the-art industrial tools at this growing research institution, Stelco's Research & Development group works closely with customers in the development of new and improved technologies, such as a number of different models, for example, the latest Stelco's new technology, which offers up to 70% greater steel resistance at impact, with low-temperature impact and hydroforming, which supports emerging processing technology.



Along with its growing research and development system, Stelco's research and development group is able to provide valuable and valuable information and information to customers to assist their business, such as Stelco's steel products can be applied in new and innovative ways. As a testament to its success, Stelco was recently rated by a major automotive manufacturer as North America's top integrated steel supplier of automotive products, maintaining numerous awards.

▶ Stelco has developed a new generation of microalloyed spring steel grades to address requirements for lighter and more compact automotive suspension systems. Testing is an essential element in the development of any new product, and Stelco works closely with its customers to ensure their needs are met.



2 Mini-mill

AltaSteel Ltd., North America's first mini-mill, produces carbon steel bars for mining, oil and gas, agricultural, automotive, machinery, forging, and construction customers throughout North America.

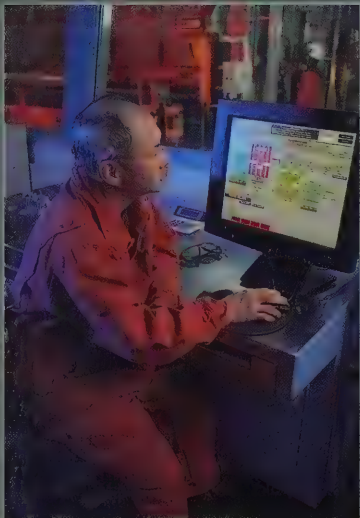
Stelco-McMaster Ltée is a major supplier of special bar quality flats for manufacturers of automotive leaf springs and cold drawing, rail anchors and track spikes, rebar for construction use, and merchant bar quality rounds and flats distributed through steel service centres.

| Company | Products | Net Sales/Shipments | | | | | | | | |
|--|--|----------------------|------|-----|------|-----|------|-----|--|--|
| Stelco-McMaster Ltée Dollard-Des-Ormes, Québec | Flats, special quality bar products, reinforcing bars, and merchant bars | Thousands of dollars | 2000 | 196 | 2001 | 185 | 2002 | 174 | | |
| | | | 2000 | 335 | 2001 | 360 | 2002 | 345 | | |
| AltaSteel Ltd. Edmonton, Alberta | Special quality bars, reinforcing bars, and grinding rods | Thousands of dollars | 2000 | 117 | 2001 | 117 | 2002 | 133 | | |
| | | | 2000 | 242 | 2001 | 228 | 2002 | 252 | | |
| Ferrel Métalux Recyclés Ltée Québec and New Brunswick | Cold processing | Thousands of dollars | 2000 | 0 | 2001 | 40 | 2002 | 0 | | |
| DemAlta Recycling Inc. Albion | Scrap processing | Thousands of dollars | 2000 | 2 | 2001 | 6 | 2002 | 5 | | |

Net sales include inter-unit transactions at market prices. For entities in which the Corporation has an ownership interest less than 100%, net sales represent 100% of the business activity of these entities.



▶ Stelco-McMaster completed a number of enhancements to its steelmaking operations in 2002 that improved energy utilization and product quality while reducing cycle time. Efforts also continue to maximize the efficiency and throughput at Stelco-McMaster's new bar mill commissioned in 2001.



The completion of AltaSteel's upgraded, state-of-the-art bar mill in 2001 has expanded rolling capacity by more than 30% while significantly enhancing product quality and size tolerance. In addition, with the commissioning of new grinding rod heat-treating equipment in the first quarter of 2002, these important technology investments have enhanced AltaSteel's ability to meet strong global demand for its high-carbon, heat-treated grinding rods used in mining applications. The patented grinding rods produced by AltaSteel have become the leading product in its class in the world. Marketing initiatives were successfully begun in South America, Europe, and other regions during 2002 to expand sales opportunities for this unique product.

| Employees | % owned | Major Markets |
|-----------|---------|---|
| 412 | 100 | Automotive, construction, mining, transportation, and steel service centres |
| 370 | 100 | Mining, manufacturing, energy, construction, and steel service centres |
| 238 | 25 | Steel manufacturing and non-ferrous refining and processing |
| 6 | 25 | Steel manufacturing and non-ferrous refining and processing |

2002 Highlights

AltaSteel continued its strong track record of growth and financial performance in 2002, progress supported by the completion of its new bar mill in 2001 and its new heat-treating facility early in 2002. Significant efforts in product development resulted in AltaSteel's heat-treated grinding rod becoming the world's leading product in its class for the mining industry.

With the commissioning of its new bar mill in 2001, Stelco-McMaster achieved strong monthly production levels through the first half of the year while new and increased orders for its specialty bar products were received from its automotive and other customers. A strike, which began on August 1, 2002, was settled on January 6, 2003 with a new five-year labour contract.

3 Manufactured Products

Stelco's specialty wire operations consist of Stelwire Ltd., Canada's largest manufacturer of steel wire products, and Stelfil Ltée, a producer of low- and high-carbon wire in a variety of finishes.

Stelpipe Ltd., one of North America's highest quality pipe and tube manufacturers, produces products in diameters from 0.5 to 8.625 inches. Welland Pipe Ltd. manufactures large-diameter pipe up to 60 inches in diameter primarily for the oil and gas industry. Camrose Pipe Company supplies both small- and large-diameter pipe to the same markets.

| Company | Products | Net Sales/Shipments | 2000 | 2001 | 2002 |
|--|--|---------------------------------------|------|------|------|
| Stelwire Ltd. (Hamilton, Ontario) | Wire and bars | Volume of orders Thousands of tons | 137 | 131 | 141 |
| Stelfil Ltée (Lachine, Quebec) | Wire and wire products | Volume of orders Thousands of tons | 160 | 135 | 170 |
| Stelpipe Ltd. (Welland, Ontario) | Tubular products ranging in diameter from 0.5 inches to 8.625 inches | Volume of orders Thousands of tons | 84 | 70 | 67 |
| Welland Pipe Ltd. (Welland, Ontario) | Large diameter transmission pipe for the oil and gas industry | Volume of orders Thousands of tons | 84 | 82 | 74 |
| Stelpipe Ltd. (Welland, Ontario) | Tubular products ranging in diameter from 0.5 inches to 8.625 inches | Volume of orders Thousands of tons | 124 | 135 | 138 |
| Welland Pipe Ltd. (Welland, Ontario) | Large diameter transmission pipe for the oil and gas industry | Volume of orders Thousands of tons | 144 | 160 | 151 |
| Welland Pipe Ltd. (Welland, Ontario) | Large diameter transmission pipe for the oil and gas industry | Volume of orders Thousands of tons | 200 | 19 | 28 |
| Welland Pipe Ltd. (Welland, Ontario) | Large diameter transmission pipe for the oil and gas industry | Volume of orders Thousands of tons | 20 | 38 | 27 |
| Camrose Pipe Company (Camrose, Alberta) | Large and small diameter pipe for the oil and gas industry | Volume of orders Thousands of tons | 60 | 52 | 59 |
| Camrose Pipe Company (Camrose, Alberta) | Large and small diameter pipe for the oil and gas industry | Volume of orders Thousands of tons | 77 | 70 | 55 |
| MOLY-COP Canada (Kirkcaldy, B.C.) | Forged alloying pipe for the mining and cement industry | Volume of orders Thousands of tons | 50 | 47 | 71 |
| MOLY-COP Canada (Kirkcaldy, B.C.) | Forged alloying pipe for the mining and cement industry | Volume of orders Thousands of tons | 81 | 100 | 105 |
| P.C. Chrome Limited (Sarnia, Ontario) | Chrome plating and finishing | Volume of orders | 2000 | 4 | 8 |

Net sales include inter-unit transactions at market prices. For entities in which the Corporation has an ownership interest less than 100%, net sales represent 100% of the business activity of these entities.



An innovative approach to operator

training was initiated at Stelpipe in 2002.

Training is an important and ongoing activity throughout the Corporation, and by consistently upgrading the skills of its people.

Stelco will build on the solid progress made in productivity and efficiency.



With value-added downstream manufacturing and processing businesses utilizing its own steel products, Stelco is North America's most diversified steelmaker and a leading producer of value-added products for a number of markets and industries. Shown here is the new zinc shot dissolution reactor commissioned early in 2002 at Stelfil, one of the Corporation's wire and wire products facilities. This new technology has generated significant improvements in health and safety while reducing maintenance and operating costs.

| Employees | % owned | Major Markets |
|-----------|---------|--|
| 29 | 100 | Automotive, agricultural, construction, and general manufacturing |
| 281 | 100 | Construction, telecommunications, hydro transmission, recycling, and general manufacturing |
| 497 | 100 | Plumbing and heating, energy, construction, automotive, and mining |
| 110 | 100 | Oil and gas transmission |
| 175 | 40 | Oil and gas collection and transmission |
| 52 | 80 | Mining and minerals |
| 23 | 50 | Steel mill services |

2002 Highlights

Stelwire grew its sales and improved its financial performance significantly in 2002. In addition, health and safety was enhanced while maintenance and overall operating costs were reduced. In November 2002, Stelfil received quality recognition from the Quebec Government in the category "Major Manufacturing Companies" as part of the "Grands Prix québécois de la qualité."

Stelpipe successfully expanded its presence in new niche automotive markets with the development of high-quality "sta-tubes" for various applications while growing its penetration in traditional oil and gas markets.

Health, Safety and Environment

The health and safety of our employees and enhancement of the environment are Stelco's top operating priorities. We are committed to continued leadership in these areas.

Health and Safety

Numerous initiatives were completed in 2002 that will support continuous improvement in reducing accident frequency and severity and will help us meet our goal of Accident Free Steel.

For example, through an innovative redesign of an unloading area, Stelco-McMaster has significantly reduced and controlled emissions from its steelmaking facility, improving health and safety as well as environmental performance. Efforts are continuing to improve ergonomics at all Stelco operations through innovative work practices and equipment redesign. AltaSteel completed a major project in their steelmaking scrap handling facility that demonstrates this commitment. Crane operators have been removed from the overhead crane cab and relocated to an air-conditioned pulpit fitted with ergonomically designed remote controls. Additionally, a focus on ergonomic cab design for lift trucks and mobile equipment is resulting in an improved environment for the operators. An emphasis on workplace safety awareness and training is an important component of our improvement program.

Environmental Performance

Initiatives to enhance environmental performance improve the quality of life within our communities and help sustain the business. In 2002, both Stelco Hamilton and Stelco Lake Erie successfully maintained ISO 14001 certification as a result of positive assessments from external third party audits of their environmental management systems.

In 2002, Stelco completed a number of projects and initiatives. For example, Stelco Lake Erie reduced emissions of smog precursors and greenhouse gases by economizing fuel rates in three reheat furnaces. At Stelco Hamilton, the installation of a redesigned sinter plant fan impeller conserves energy and reduces emissions of smog precursors and greenhouse gases. AltaSteel focused on waste reduction, and as a result is sending its spent ladle refractory, previously considered waste, to a recycling company for use as a liming material for applications such as amending acidic farm soils. Stelpipe achieved savings of approximately \$100,000 annually by recycling its spent hydrochloric acid as opposed to disposing of it as a waste. In addition, Stelpipe completed the replacement of all its PCB-filled transformers thereby minimizing environmental risk.

Stelco was honoured in 2002 with the Canada Climate Change Voluntary Challenge Registry's Leadership Award for displaying extraordinary commitment, action, and leadership towards the voluntary reduction of Greenhouse Gas Emissions.



▶ Stelco Lake Erie is focused on continuous improvements in its environmental performance. Several studies in this past year focused on the energy efficiency of its hot strip mill reheat furnaces, resulting in improved energy consumption and significant reductions in smog precursor and greenhouse gas emissions.

Research and Development



1

Stelco provides its customers with important product and technical support with advanced analytical tools, including computer aided design and finite element analysis modeling. These resources are helping Stelco's automotive customers increase the effectiveness of steel, allowing them to build stronger and safer vehicles while achieving weight and cost reductions.



3

Stelco is exploring innovative approaches to annealing technologies to support continuous product improvement and advanced new high-strength steel development. These efforts are being undertaken in partnership with the McMaster University Steel Research Centre and a major international steel producer.



2

Research and development activities continue to involve intensive steel product work extending production technology with the technology and manufacturing innovations in Stelco's innovative training team.



4

Working closely with its customers, Stelco's R&D department supports the implementation of new steels and applications in the automotive marketplace. This early vendor involvement (EVI) has resulted in a number of new product introductions, including new higher-strength structural steels and greater dent-resistant, bake-hardenable steel for exposed door panels.

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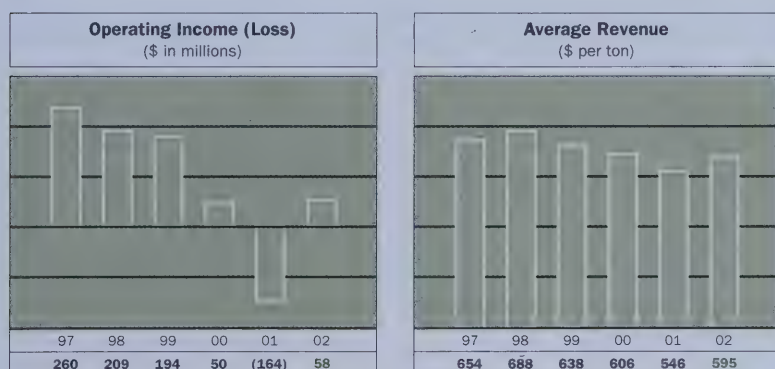
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The purpose of this Management's Discussion and Analysis (MD&A) is to provide Stelco management's commentary on the Corporation's financial situation and future prospects. The discussion focuses on the Corporation's three reportable segments: Integrated Steel, Mini-mill, and Manufactured Products. This discussion of the Corporation's business may include forward-looking information with respect to the Corporation, including its business, operations, and strategies, as well as its financial performance and conditions. Such statements can generally be identified by the use of forward-looking words such as, "may," "will," "expect," or similar variations. Although management believes that expectations reflected in forward-looking statements are reasonable, such statements involve risks and uncertainties including the factors discussed in this MD&A, which should be read in conjunction with the consolidated statements contained in this Annual Report.

Income Summary

| Stelco Inc. (\$ in millions, except as indicated*) | Favourable (Unfavourable) | | | |
|--|------------------------------|------------|----------|----|
| | 2002 | 2001 | Percent | |
| Net sales | \$ 2,784 | \$ 2,561 | \$ 223 | 9% |
| Costs | 2,598 | 2,593 | (5) | — |
| Amortization of property, plant, and equipment | 128 | 132 | 4 | 3% |
| Operating earnings (loss) | \$ 58 | \$ (164) | \$ 222 | — |
| Earnings per Share | *\$ 0.04 | *\$ (1.74) | *\$ 1.78 | — |
| Tons shipped (thousands of net tons) | 4,680 | 4,690 | (10) | — |
| Average revenue per ton | \$ 595 | \$ 546 | \$ 49 | 9% |
| Cost per ton | \$ 555 | \$ 553 | \$ (2) | — |
| Semi-finished steel production (thousands of net tons) | 5,149 | 4,959 | 190 | 4% |

2002 was a year of significant recovery in the North American steel market from the depressed conditions in 2001. Demand improved in the consumer segments of the market, led by the automotive industry, which increased its North American vehicle build to 16.4 million units, up 6% from 2001. The residential housing and appliance markets were also strong. Steel demand in the capital goods sector and oil and gas industry remained weak throughout 2002. An improved North American steel supply/demand balance, as a result of reduced U.S. mill output and import restraints with the U.S. 201 tariff imposition, supported significant spot market price recovery from the 20-year lows in 2001. In addition, contract price increases were also achieved.



Annual 2002 semi-finished steel production of 5,149,000 tons was 4% higher than 2001 due to an annual production record at Stelco Lake Erie and increased production at Stelco Hamilton, partially offset by the strike at Stelco-McMaster Ltée.

Net sales and average revenue per ton improved in 2002 due to higher selling prices, a higher-value-added mix of sales, and stronger demand. The strike at Stelco-McMaster Ltée had a negative impact on net sales.

Cost per ton was slightly higher in 2002 mainly due to:

- a higher-value-added mix of sales
- the Stelco-McMaster strike
- higher input costs, particularly electricity and scrap
- higher labour costs due to the Stelco Hamilton labour contract;

partially offset by:

- lower natural gas prices
- quality and productivity improvements
- cost reduction initiatives.

Amortization of property, plant, and equipment decreased by 3% compared with 2001, due to certain assets becoming fully depreciated.

Interest on long-term debt declined to \$43 million from \$49 million in 2001. Average long-term debt outstanding in 2002 was lower than in 2001 as a result of regularly scheduled principal payments exceeding new borrowings and from the repayment of the PCI term loan. Other interest – net, an expense of \$6 million in 2002, compared with an expense of \$4 million in 2001, reflected lower cash and cash equivalents balances and increased usage of the Corporation's operating lines of credit in 2002.

Included in 2002 operating earnings was a net gain of \$9 million after-tax (\$0.09 per common share) due to the permanent shutdown of "D" blast furnace at Stelco Hamilton resulting in an adjustment to the Corporation's provision for future blast furnace relines net of charges associated with this shutdown. In addition, there was a non-cash credit to earnings of \$8 million (\$0.08 per common share) as described below under Income tax.

Income tax includes Canadian federal and provincial income taxes, as well as the Canadian Large Corporation Tax, and federal and state income taxes pertaining to the Corporation's activities in the United States. An income tax net recovery of \$5 million was recorded in 2002 versus a recovery of \$39 million in 2001, including the effects of changes in Ontario tax rates in both years as described below. The components of consolidated income taxes for 2002 and 2001 are presented in Note 2 to the consolidated financial statements.

No dividends were declared in 2002 or 2001. On February 1, 2001, \$3 million in common share dividends were paid relating to a dividend declared in December 2000.

On January 21, 2002, the Corporation issued \$90 million of 9.50% Convertible Unsecured Subordinated Debentures due February 1, 2007. The debentures are convertible at the option of the holder into Series A Convertible Common Shares ("Shares") of the Corporation at any time prior to the maturity date at a conversion price of \$4.50 per share. The debentures are redeemable by the Corporation, under certain circumstances, on and after February 1, 2005. The Corporation has the option to pay interest in cash, or by the issuance to a Trustee of Shares, the proceeds of the sale of which would be used to discharge the interest payment to the holder. The Corporation has the option to repay the principal amount of the debentures, at redemption or maturity, in cash or by the issuance of Shares directly to the holder. The proceeds of the sale of debentures were used for general corporate purposes, including the repayment of short-term debt.

At year-end, the Corporation's net short-term debt position (bank indebtedness net of cash and cash equivalents) was \$78 million compared with \$35 million at the end of 2001. The increase was primarily due to higher working capital requirements, the repayment of long-term debt, and expenditures for capital assets, partially offset by cash flow from operating activities and the proceeds from the convertible debenture issue.

In February 2002, Stelco Inc. announced it had entered into a ten-year agreement with EDS Canada (EDS), effective April 1, 2002, whereby EDS will provide information technology support and development services at most of Stelco's locations in Canada. Under the agreement, EDS will also implement new enterprise resource planning (ERP) systems for Stelco's order flow, maintenance, procurement, human resources, and finance functions.

Income tax

In May 2001, the Government of Ontario announced corporate income tax rate reductions of 1% per year for the taxation years 2002 to 2005, inclusive. Applying Canadian generally accepted accounting principles (GAAP), the Corporation adjusted the amount of its net future income tax asset to reflect the reduction in the Ontario corporate tax rate. At that time, the net future tax asset was reduced by \$27 million, resulting in a non-cash charge to earnings in the same amount (\$0.26 per common share). In June 2002, the Ontario Government announced that the planned rate reductions were being delayed one year beginning in 2003. In fourth quarter 2002, when the delayed rate reduction was substantively enacted, the net future tax asset was increased by \$8 million, resulting in a non-cash credit to earnings in the same amount (\$0.08 per common share). The income tax rate reduction will have a positive impact on cash flow in future years as future earnings will be taxed at the lower tax rates.

Segmented Information

The three reportable segments of Stelco's business are Integrated Steel, Mini-mill, and Manufactured Products. Results of operations for these segments for 2002 and 2001 are summarized in the tables under each segmented section.

Integrated Steel segment

The Integrated Steel segment of the Corporation comprises those businesses that include and are primarily associated with the Stelco Hamilton and Stelco Lake Erie integrated steel plants and their raw material properties. Entities included in this segment are described on pages 6 to 9 of this report.

The primary markets served by this segment are automotive, transportation, construction, manufacturing, and pipe and tubular manufacturers; steel service centres; and steel fabricators. The segment provides a significant quantity of steel required by Stelco's Manufactured Products segment.

On July 30, 2002, Stelco Hamilton's hourly employees ratified a new four-year labour contract.

Effective January 1, 2003, Stelco Inc. announced a restructuring of its two integrated steel operations located in Hamilton, Ontario, and Nanticoke, Ontario, into one business named Stelco Integrated Steel Business. It consists of Stelco's two integrated steel plants, Stelco Hamilton (formerly Hilton Works), and Stelco Lake Erie (formerly Lake Erie Steel Company).

| (\$ in millions) | 2002 | 2001 | Favourable (Unfavourable) | Percent |
|--|----------|----------|------------------------------|---------|
| Net sales | \$ 2,336 | \$ 2,070 | \$ 266 | 13% |
| Costs | 2,169 | 2,124 | (45) | (2%) |
| Amortization of property, plant, and equipment | 116 | 121 | 5 | 4% |
| Operating earnings (loss) | \$ 51 | \$ (175) | \$ 226 | — |
| Tons shipped (thousands of net tons) | 4,126 | 4,021 | 105 | 3% |
| Average revenue per ton* | \$ 573 | \$ 522 | \$ 51 | 10% |
| Cost per ton | \$ 526 | \$ 528 | \$ 2 | — |
| Semi-finished steel production (thousands of net tons) | | | | |
| Stelco Hamilton | 1,921 | 1,662 | 259 | 16% |
| Stelco Lake Erie | 2,594 | 2,441 | 153 | 6% |
| Total | 4,515 | 4,103 | 412 | 10% |

*Excluding intersegment sales

Net sales

North American demand for steel products sold by this segment increased in 2002 from the reduced levels experienced in 2001. Apparent Canadian steel consumption in 2002 increased by 4% to 17.4 million tons compared with 16.7 million tons in 2001. Shipments of integrated steel products increased, principally due to strong demand, particularly from consumer markets: automotive, housing, and appliances. The Integrated Steel segment's 13% increase in net sales was due to higher selling prices and increased hot rolled and coated sales. The increase in average revenue per ton of \$51 or 10% was primarily due to higher selling prices and a higher-value-added mix of sales.

Production and costs

Stelco Hamilton "E" blast furnace produced at a record rate for the year, resulting in increased productivity and lower costs, and facilitating the permanent closure of "D" blast furnace in 2002. This permanent closure resulted in a non-cash net gain of \$14 million pre-tax principally related to the reversal of expenses that had previously been accrued for a future "D" furnace reline net of certain charges associated with the furnace shutdown. Iron production at Stelco Hamilton will now be concentrated on the improved "E" blast furnace.

Records established in 2002 included:

- annual production records at the Stelco Lake Erie coke ovens, ironmaking, steelmaking, and hot strip mill facilities
- annual production record at the Stelco Hamilton "E" blast furnace.

Cost per ton was down slightly in 2002 mainly due to:

- quality and productivity improvements
- lower natural gas prices
- cost reduction initiatives;

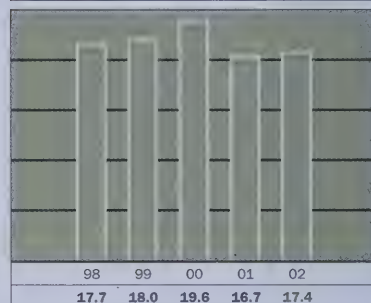
partially offset by:

- a higher-value-added mix of sales
- higher input costs, particularly electricity and scrap
- higher labour costs due to the Stelco Hamilton labour contract
- reduced rod mill production due to the Stelco-McMaster strike disrupting billet supply.

Operating earnings (loss)

The increase in operating earnings of \$226 million was primarily due to increased sales and lower cost-per-ton performance.

Apparent Canadian Steel Consumption
(millions of net tons)



Mini-mill segment

The Mini-mill segment of the Corporation includes Stelco-McMaster Ltée and AltaSteel Ltd., located in Contrecoeur, Quebec, and Edmonton, Alberta, respectively. These wholly owned subsidiaries comprise electric arc steelmaking, billet casting, bar rolling and grinding rod heat treating facilities, and have combined steelmaking capacity of approximately 1,000,000 tons. This segment also includes the respective mini-mills' 50%-owned metal recyclers, Fers et Métaux Recyclés Ltée and GenAlta Recycling Inc. The primary markets served by this segment are automotive, construction, oil and gas, mining, manufacturing, and steel service centres. Entities included in this segment are highlighted on pages 10 and 11 of this report.

| (\$ in millions) | 2002 | 2001 | Favourable (Unfavourable) | Percent |
|--|--------|--------|------------------------------|---------|
| Net sales | \$ 257 | \$ 315 | \$ (58) | (18%) |
| Costs | 235 | 282 | 47 | 17% |
| Amortization of property, plant, and equipment | 8 | 7 | (1) | (14%) |
| Operating earnings | \$ 14 | \$ 26 | \$ (12) | (46%) |
| Tons shipped (thousands of net tons) | 597 | 794 | (197) | (25%) |
| Average revenue per ton* | \$ 461 | \$ 420 | \$ 41 | 10% |
| Cost per ton | \$ 394 | \$ 355 | \$ (39) | (11%) |
| Semi-finished steel production (thousands of net tons) | | | | |
| Stelco-McMaster Ltée | 354 | 584 | (230) | (39%) |
| AltaSteel Ltd. | 280 | 272 | 8 | 3% |
| Total | 634 | 856 | (222) | (26%) |

*Excluding intersegment sales

A strike that began at Stelco-McMaster on August 1, 2002, ended with the ratification of a new five-year labour agreement on January 6, 2003. Stelco-McMaster is returning to normal operations with good customer support for order load.

The decrease in net sales and shipments was primarily due to the strike at Stelco-McMaster, partially offset by increased shipments at AltaSteel.

Increases in average revenue and average cost per ton were mainly due to the higher percentage of AltaSteel sales due to the strike at Stelco-McMaster.

The decrease in operating earnings of \$12 million was primarily due to the strike at Stelco-McMaster.

During fourth quarter 2002, the new in-line bar mill at AltaSteel set a monthly production record. The grinding rod heat-treat facility commissioned in the second quarter 2002 is now operating at its design capacity.

Manufactured Products segment

The Manufactured Products segment of the Corporation includes businesses, both wholly and partially owned, involved in the manufacturing of value-added steel products. Products manufactured by this segment include a wide variety of wire and wire products, small- and large-diameter pipe and tubular products, and grinding balls. Further information on the entities comprising this segment may be found on pages 12 and 13 of this report.

| (\$ in millions) | 2002 | 2001 | Favourable (Unfavourable) | Percent |
|--|--------|---------|------------------------------|---------|
| Net sales | \$ 429 | \$ 434 | \$ (5) | (1%) |
| Costs | 432 | 445 | 13 | 3% |
| Amortization of property, plant, and equipment | 4 | 4 | – | – |
| Operating (loss) | \$ (7) | \$ (15) | \$ 8 | 53% |
| Tons shipped (thousands of net tons) | 486 | 496 | (10) | (2%) |
| Average revenue per ton* | \$ 881 | \$ 871 | \$ 10 | 1% |
| Cost per ton | \$ 889 | \$ 897 | \$ 8 | 1% |

*Excluding intersegment sales

The decrease in net sales and shipments was primarily due to lower large-diameter pipe sales, partially offset by higher sales at Stelwire Ltd.

The reduction in the operating loss of \$8 million resulted from the positive effect on costs of certain pension adjustments made in 2002.

Stelwire's Burlington Works completed six years without a lost-time accident.

Liquidity and Capital Resources

A summary of liquidity-related data is provided as follows.

| December 31 (\$ in millions) | 2002 | 2001 |
|---|-------|-------|
| Cash and cash equivalents | \$ 67 | \$ 41 |
| Available lines of credit | 308 | 313 |
| Lines of credit drawn down | 145 | 76 |
| Long-term debt/equity as a percent of total capital | 34/66 | 39/61 |
| Net debt/equity as a percent of total capital | 38/62 | 41/59 |

Convertible debentures issued in first quarter 2002 have been included in shareholders' equity.

Operating activities

Operating earnings, adjusted for items not affecting cash, provided \$134 million in cash in 2002, compared with a cash outflow of \$78 million 2001, with the improvement being mainly due to higher earnings. Amounts arising from adjustments to income tax rates relate to future income taxes and are non-cash items. The impact of the shutdown of "D" blast furnace at Stelco Hamilton in third quarter 2002 is a non-cash item and is deducted from net earnings for purposes of cash flow analysis.

Changes in operating elements of working capital impacted cash flow as shown in the following table.

| (\$ in millions) | 2002 | 2001 |
|------------------------------|----------|--------|
| Cash provided by (used for) | | |
| Accounts receivable | \$ (35) | \$ 37 |
| Inventories | (91) | 102 |
| Accounts payable and accrued | (14) | (2) |
| Other | (4) | 13 |
| Total | \$ (144) | \$ 150 |

The increase in accounts receivable reflects a 14% increase in net sales in fourth quarter 2002 compared to the same quarter of 2001.

The increase in inventories is mainly due to an increase in higher valued steel inventory and raw material.

Investing activities

On July 31, 2002, the Corporation exercised an option to pay in full the remaining term loan on the pulverized coal injection facility at Stelco Hamilton (see Financing activities). An amount of \$8 million that was held in escrow under the financing agreement was returned to Stelco as a result of this payment.

Expenditures for capital assets in 2002 were \$48 million compared with \$73 million in 2001. Both years included expenditures for equipment purchases for Phase II of the Stelco Lake Erie hot strip mill upgrade, and for the new in-line bar mill and heat-treat facility at AltaSteel Ltd. In July 2002, Stelco Ltd. completed a transaction whereby it exercised an option to purchase the stretch reduction mill (SRM) asset for approximately \$8 million. This transaction is included in 2002 expenditures for capital assets. The SRM had been leased under an operating lease since 1992 at an annual cost of approximately \$12 million. The purchased asset is being amortized over 10 years, beginning July 2002.

Capital expenditures on the Corporation's development of new enterprise resource planning systems are being directly financed with the vendor under the agreement with EDS Canada. Due to the nature of this financing arrangement, the spending to December 31, 2002 on the project of \$19 million is not reported as a direct cash outflow and is not included in either Investing or Financing activities.

During 2001, \$21 million was realized on various sale and leaseback transactions. No sale and leaseback activities took place in 2002.

Financing activities

Bank indebtedness increased by \$69 million in 2002 primarily due to higher working capital requirements, the repayment of long-term debt, and expenditures for capital assets, partially offset by cash flow from operating activities and the proceeds from the convertible debenture issue. In 2001, bank indebtedness increased by \$33 million due to capital spending and debt repayment.

The majority of long-term debt issued in both years has been for the bar mill modernization project and the new grinding rod heat-treat facility at AltaSteel.

Reduction of long-term debt was \$87 million in 2002 compared with \$70 million in 2001. Included in both years were scheduled repayments of various debt issues and, in 2002, the unscheduled repayment of the loan for the pulverized coal injection facility at Stelco Hamilton. A summary of the debt repayment is as follows:

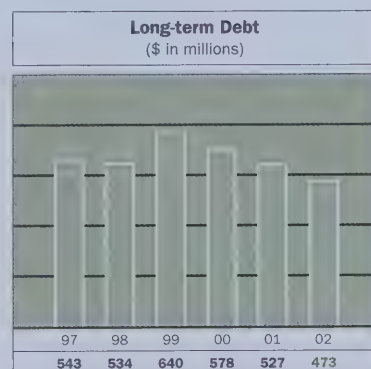
| (\$ in millions) | 2002 | 2001 |
|---|-------|-------|
| Notes payable | \$ 30 | \$ 30 |
| Term loans | 34 | 30 |
| Debt of proportionately consolidated joint ventures | 23 | 10 |

The increase in 2002 repayments versus 2001 primarily reflects the Corporation's exercise, on July 31, 2002, of an option to pay off the remaining term loan of \$13 million on the pulverized coal injection facility at Stelco Hamilton.

In 2001, no common shares were acquired for cancellation under the normal course issuer bid that expired on March 15 of that year.

In January 2002, net proceeds of \$87 million were obtained from the issue of convertible debentures.

No dividends were declared in 2002 or 2001. On February 1, 2001, \$3 million in common share dividends were paid relating to a dividend declared in December 2000.



Risks and Uncertainties

Steel supply and prices

Among the most significant issues facing the North American steel industry are excess global steelmaking capacity and low import steel prices. One factor driving low prices has been the entry of unfairly priced steel products into Canada. The international oversupply of steel has resulted in a continuation of unfairly priced imports entering the Canadian market during 2002.

Specific details of trade-related developments and activities are described under the heading Trade.

Cyclical nature of the North American steel industry

The North American steel industry is cyclical in nature and is sensitive to general economic conditions. The financial performance of companies in the steel industry is generally affected by macroeconomic fluctuations in the United States, Canadian, and global economies. The Corporation is particularly sensitive to trends in cyclical industries, such as automotive, construction, and oil and gas, which are significant markets for the Corporation's products.

Market conditions for steel products in North America were difficult from the third quarter of 2000 until the second quarter of 2002. A significant portion of the Corporation's sales is dependent upon the automotive industry. For the period 1999 to 2002, sales to the automotive industry represented approximately 40% of the Corporation's net sales.

In 2002, the increase in sales was mainly due to higher selling prices, with stronger demand, particularly from consumer markets: automotive, housing, and appliances. Steel market demand and prices in 2003 will depend on general economic activity and steel supply factors.

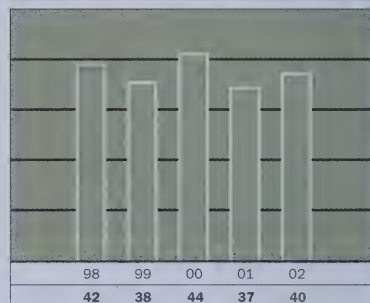
Restructuring activity

In recent years, many North American steel companies have sought creditor protection. Upon emergence from bankruptcy protection, these companies, or the new entities that purchase the facilities of these companies through the bankruptcy process, have been relieved of certain debt, labour, retiree, environmental, and other obligations. As a result, these companies are able to operate with lower costs than prior to bankruptcy protection.

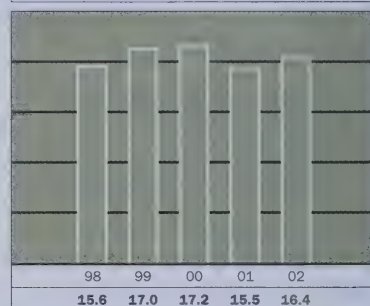
Variability of operating results

The Corporation's operational and financial results may fluctuate substantially, due not only to the cyclical nature of the steel industry, but also due to other factors such as specific product competition, operating performance, uncontrollable increases in prices of raw materials and utilities, and difficulties or delays in capital projects. The Corporation experienced a prolonged period of low selling prices for its steel products contributing to seven successive quarters of losses beginning in third quarter 2000 through first quarter 2002. Selling prices rebounded in the second half of 2002.

**Imports Share of Apparent
Canadian Consumption (% of total)**



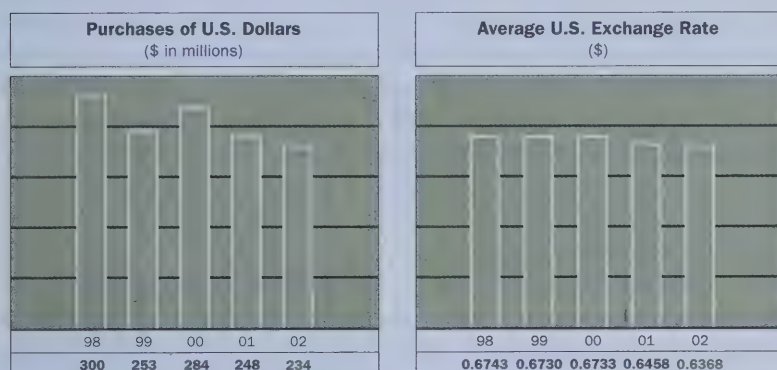
**North American Automotive Production
(millions of units)**



Currency fluctuations

The Corporation is a net purchaser of U.S. dollars with U.S.-dollar denominated purchases of raw materials, supplies, and equipment exceeding U.S. dollar receipts from sales.

As a net purchaser of U.S. funds, the Corporation is negatively affected by a weak Canadian currency. However, this is somewhat offset by the favourable effect of a weak Canadian dollar on the Corporation's competitive position, as well as the competitiveness of its Canadian customers, over U.S.-based counterparts.



Operating lines of credit and interest rates

The Corporation's operating lines of credit (\$308 million at December 31, 2002) are subject to periodic renewal in the next 24 months, including the line of credit at Stelco Inc. (\$250 million), which expires in September 2004. The Corporation's operating lines of credit are made available at floating rates of interest. With the current level of the Corporation's debt load, and at current interest rates, there is no abnormal interest rate risk for the Corporation. If the Bank of Canada raises interest rates significantly, the Corporation's interest expense on its floating rate indebtedness will increase.

Labour matters

The Corporation and its wholly owned subsidiaries are party to 10 collective agreements with trade unions representing approximately 75% of the Corporation's employees. The agreements are limited to single plants. Three labour agreements expired in 2002 and two were renegotiated prior to expiration. A strike began at Stelco-McMaster on August 1, 2002, and ended with the ratification of a new five-year labour agreement on January 6, 2003. The impact of the new agreements, where material, and the effect of the Stelco-McMaster work stoppage are discussed in the segmented information section of the MD&A. No assurance can be given that labour difficulties at any of the Corporation's business units will not result in a significant loss of production and revenue and have a material adverse effect on the business, financial condition, or results of operations of the Corporation.

Employee future benefits

The Corporation, its subsidiaries and joint ventures, participate in a number of employee future benefit arrangements (principally pensions and health care) in Canada and the United States. As stated in Note 1 on page 34 "Summary of Significant Accounting Policies" regarding Employee Future Benefits, the cost of these benefits recognized in the financial statements is computed on an actuarial basis using management's best estimate of investment yields, discount rates, salary escalation, health care cost trends, and other factors. Management consults certain outside sources, including actuaries, in determining these factors and is of the view that the assumptions used, as disclosed in Note 14 on page 46, are appropriate. However, if actual experience differs from these assumptions, the expense recorded in future years could increase or decrease. (See Note 14)

Environmental matters

The Corporation's businesses are required to comply with an evolving body of environmental laws and regulations concerned with, among other things, emissions into the air, discharges to surface ground water, noise control, and the generation, handling, storage, transportation, and disposal of toxic and hazardous substances. These laws and regulations vary depending on the location of the facility and can fall within federal, provincial, or municipal jurisdictions.

The Corporate Health, Safety and Environment Department regularly reviews and audits the operating practices of each business unit to monitor compliance with the Corporation's health and safety and environmental policies and legal requirements. The Corporation believes that future costs relating to environmental compliance will not have a material adverse effect on the Corporation's financial position. There is always the possibility, however, that unforeseen changes, such as new laws or enforcement policies, or a crisis at one of our properties or operations, could result in material adverse costs.

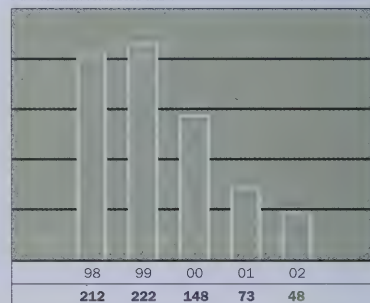
In meeting its overall environmental goals and government-imposed standards in 2002, the Corporation incurred operating costs of \$55 million (\$63 million in 2001) and spent \$2 million on capital improvements (\$3 million in 2001).

Technology and competition

The Corporation is subjected to competition from new technological developments and competitors. Over the last five years the Corporation has made capital expenditures on several projects to maintain and enhance its technological ability including the following:

- Stelco Lake Erie hot strip mill, blast furnace, and caster upgrades
- Stelco Hamilton coke oven refurbishment, "E" blast furnace improvements, and 4-stand upgrade
- Stelco-McMaster bar mill expansion and modernization
- AltaSteel bar mill expansion and modernization and a new grinding rod heat-treat facility.

Capital Investments
(\$ in millions)



Supply of raw material and energy

The Corporation's operations require substantial amounts of raw materials and energy including coal, iron ore, coke, scrap, natural gas, electricity, and other inputs. The price and availability of such raw materials and inputs are subject to market forces and, in some cases, to government regulations and, accordingly, are subject to change. Fluctuations in the price of natural gas taking place since 2000 had a significant negative impact on the Corporation's results.

To mitigate the effect of these price increases, the Corporation will:

- utilize more internally generated fuels to reduce the need to purchase external fuels and to conserve energy
- use increased amounts of alternate fuels such as coke and pulverized coal when natural gas prices increase sharply.

The Ontario government deregulated the electricity market in Ontario as of May 1, 2002, giving rise to uncertainty as to prices in the future. The recent decision by the government to re-regulate the electricity market for residential consumers and small businesses has not changed this uncertain environment for large users such as Stelco.

The Corporation will continue to investigate means that will minimize both long- and short-term exposure to energy price fluctuations.

There is a risk that the Corporation may not be able to pass on increases in the price of raw material and energy inputs to its customers.

Trade

The Corporation's business activities continued to be affected by the importation of steel products into the Canadian market at unfair price levels.

On March 5, 2002, U.S. President George W. Bush announced his import remedy decision following the U.S. International Trade Commission's investigation under Section 201 of the Trade Act of 1974. The U.S. imposed tariffs of up to 30 percent on a wide range of steel imports. Canada and Mexico, due to their NAFTA status, were excluded from the tariffs. However, there was concern that unfairly traded steel, otherwise destined for the U.S. market, could be diverted to Canada due to these U.S. tariffs and the enactment of similar measures by Mexico. Consequently, at the request of Canadian steel producers, the Government of Canada initiated, on March 22, 2002, a safeguard investigation into the increased level of Canadian steel imports. Furthermore, the government also announced its intention to invoke a provision whereby any surge in imported steel during the investigation period could result in the immediate imposition of a tariff surcharge.

On July 5, 2002, the Canadian International Trade Tribunal (CITT) announced that five out of nine imported steel products subject to its safeguard investigation had caused serious injury to the Canadian steel industry. Those products were discrete plate, cold rolled sheet and coil, reinforcing bar, standard pipe, and angles, shapes and sections. These five products represented 27% of total imported steel products in 2001. Stelco's business units produce and sell the first four products listed and they represented approximately 20% of Stelco's total sales for 2002.

The CITT found no current or future threat of serious injury from imports of four products: hot rolled sheet and coil, corrosion-resistant sheet and coil, hot rolled bar, and cold drawn bar and rod. Stelco's units produce and sell the first three products listed and they represented almost 70% of Stelco's total sales for 2002.

The CITT presented to the Minister of Finance on August 19, 2002, a set of recommendations with respect to injury remedy on imports of plate; cold rolled sheet; reinforcing bars; angles, shapes and sections; and standard pipe. To date the government has made no announcement on final remedy. Stelco and the Canadian steel industry continue to press the government to impose measures that will stem the surge of imports from offshore that increased by 31% in 2002 over the previous year. Imports of rolled steel products increased 26%. Overall, imports claimed 40% of market consumption in 2002.

On January 10, 2003, the CITT announced the continuation, until 2007, of its antidumping finding on carbon steel plate from China, Russia, and South Africa, while rescinding the order against Mexico.

It is important that unfair imports be addressed or they will have a negative impact on the Corporation.

Outlook

A sluggish North American economy, along with increased production at various U.S. mills, is adversely impacting steel demand and spot prices in the first quarter of 2003. We expect steel demand to improve as the North American economy recovers. The surge that continues in offshore import volume is of great concern and we are working with our government to fully enforce our trade laws to remedy the injury caused to Canadian steel producers.

External factors that could affect the Corporation in 2003:

- economic performance in the North American and world economies
- continued high volumes of low-priced imported steel
- high energy and raw material costs.

Management of Stelco Inc. is responsible for the preparation of the accompanying consolidated financial statements and related information contained in this Annual Report. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Where alternative accounting methods exist, management has chosen methods which management believes to be appropriate in the circumstances. Where estimates or judgments have been required, management has determined such amounts on a reasonable basis in conformity with Canadian generally accepted accounting principles.

In meeting its reporting responsibility, management has established and followed policies and procedures and systems of internal control designed to (i) provide reasonable assurance that assets were safeguarded from loss or unauthorized use and (ii) produce reliable financial information. These internal control systems were periodically tested and evaluated by both the internal auditors and the external auditors, and management took any action necessary to respond appropriately to their recommendations. Management recognizes the limits inherent in all systems of internal control but believes that Stelco has established effective and responsive systems of internal control through the careful selection of employees, the division of responsibilities, and the application of formal policies and procedures.

The Board of Directors oversees management's preparation of the consolidated financial statements and ultimately approves the financial statements and related disclosure based on a recommendation from the Audit Committee of the Board of Directors. As a basis for recommending approval of the consolidated financial statements to the Board of Directors, the Audit Committee reviews with management the Corporation's internal controls over financial reporting and the accounting policies and procedures employed by the Corporation for financial reporting purposes and, as well, meets independently with internal and external auditors to consider the results of their audits.

Stelco's management believes that the systems of internal control, review procedures, and established policies provide reasonable assurance that the Corporation's operations have been carried out in conformity with the high business standards of the Corporation's Code of Ethics and Business Conduct.

The Audit Committee recommended the appointment of the Corporation's external auditors, KPMG LLP, to examine the 2002 and 2001 consolidated financial statements of the Corporation in accordance with auditing standards generally accepted in Canada. The appointment of the external auditors was confirmed by the Corporation's shareholders. The external auditors' report as to the fairness of presentation of these financial statements and their conformity with Canadian generally accepted accounting principles is included in this Annual Report.



J. C. Alfano
President
and Chief Executive Officer



M. C. Steinman
Executive Vice President
and Chief Financial Officer

Hamilton, Canada
January 30, 2003

To the shareholders of Stelco Inc.

We have audited the consolidated statements of financial position of Stelco Inc. as at December 31, 2002 and 2001 and the consolidated statements of earnings, retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Hamilton, Canada

January 30, 2003

KPMG

| Years ended December 31, (in millions) | 2002 | 2001 |
|---|--------------|-----------------|
| Net sales | \$ 2,784 | \$ 2,561 |
| Costs | 2,598 | 2,593 |
| EBITDA* | 186 | (32) |
| Amortization of property, plant, and equipment | 128 | 132 |
| Operating earnings (loss) | 58 | (164) |
| Financial expense | | |
| Interest on long-term debt | (43) | (49) |
| Other interest – net | (6) | (4) |
| Earnings (loss) before income taxes | 9 | (217) |
| Income tax expense (recovery) (Note 2) – current | 14 | 15 |
| – future | (11) | (81) |
| – impact of income tax rate changes | (8) | 27 |
| Net earnings (loss) | \$ 14 | \$ (178) |
| Earnings (loss) per common share (Note 11) | | |
| Basic and fully diluted | \$ 0.04 | \$ (1.74) |
| Weighted average common shares outstanding – millions | 102.2 | 102.2 |

*Earnings before interest, income taxes, and amortization of property, plant, and equipment.

See accompanying Notes to the Consolidated Financial Statements.

Consolidated Statement of Retained Earnings

| Years ended December 31, (in millions) | 2002 | 2001 |
|--|-------|--------|
| Balance at beginning of year | \$ 23 | \$ 201 |
| Net earnings (loss) | 14 | (178) |
| Convertible debentures charges (Note 10) | (10) | |
| Balance at end of year | \$ 27 | \$ 23 |

See accompanying Notes to the Consolidated Financial Statements.

At December 31, (in millions)

| | 2002 | 2001 |
|---|---------------|---------------|
| Current assets | | |
| Cash and cash equivalents | \$ 67 | \$ 41 |
| Accounts receivable | 381 | 346 |
| Inventories (Note 3) | 770 | 678 |
| Prepaid expenses | 11 | 11 |
| Future income taxes (Note 2) | 74 | 25 |
| | 1,303 | 1,101 |
| Current liabilities | | |
| Bank indebtedness (Note 4) | 145 | 76 |
| Accounts payable and accrued | 437 | 451 |
| Employee future benefits (Note 14) | 47 | 44 |
| Income and other taxes | 18 | 21 |
| Long-term debt due within one year (Note 8) | 54 | 71 |
| | 701 | 663 |
| Working capital | 602 | 438 |
| Other assets | | |
| Property, plant, and equipment (Note 5) | 1,202 | 1,299 |
| Intangible assets (Note 6) | 38 | 13 |
| Deferred pension cost (Note 14) | 299 | 281 |
| Future income taxes (Note 2) | 87 | 114 |
| Other | 11 | 20 |
| | 1,637 | 1,727 |
| Total investment | 2,239 | 2,165 |
| Other liabilities | | |
| Provision for blast furnace relines – beyond one year | 62 | 66 |
| Employee future benefits (Note 14) | 840 | 819 |
| Long-term debt (Note 8) | 419 | 456 |
| Future income taxes (Note 2) | 5 | 7 |
| | 1,326 | 1,348 |
| Shareholders' equity | \$ 913 | \$ 817 |
| Derived from: | | |
| Convertible debentures (Note 10) | \$ 92 | \$ |
| Capital stock (Note 11) | 781 | 781 |
| Contributed surplus | 13 | 13 |
| Retained earnings | 27 | 23 |
| | \$ 913 | \$ 817 |

See accompanying Notes to the Consolidated Financial Statements.

On behalf of the Board:


James C. Alfano
Director

J. E. Caldwell
Director

| Years ended December 31, (in millions) | 2002 | 2001 |
|--|-----------|------------|
| Cash provided by (used for) | | |
| Operating activities | | |
| Net earnings (loss) | \$ 14 | \$ (178) |
| Adjustments for items not affecting cash | | |
| Amortization of property, plant, and equipment | 128 | 132 |
| Future income taxes | (11) | (81) |
| Impact of income tax rate changes | (8) | 27 |
| Employee pension and other future benefits | 5 | 6 |
| Provision for blast furnace relines | 12 | 14 |
| Shutdown of "D" blast furnace (Note 16) | (14) | |
| Other – net | 8 | 2 |
| | 134 | (78) |
| Changes in operating elements of working capital (see below) | (144) | 150 |
| Other – net | – | (3) |
| | (10) | 69 |
| Investing activities | | |
| Proceeds from escrow | 8 | |
| Proceeds from sale of capital assets | – | 21 |
| Expenditures for capital assets | (48) | (73) |
| | (40) | (52) |
| Financing activities | | |
| Increase in bank indebtedness | 69 | 33 |
| Net proceeds from issue of long-term debt | 11 | 19 |
| Reduction of long-term debt | (87) | (70) |
| Net proceeds from issue of convertible debentures (Note 10) | 87 | |
| Interest paid on convertible debentures (Note 10) | (4) | |
| Cash dividends paid | – | (3) |
| | 76 | (21) |
| Net increase (decrease) in cash and cash equivalents | 26 | (4) |
| Cash and cash equivalents | | |
| Balance at beginning of year | 41 | 45 |
| Balance at end of year | \$ 67 | \$ 41 |
| Changes in operating elements of working capital | | |
| Accounts receivable | \$ (35) | \$ 37 |
| Inventories | (91) | 102 |
| Prepaid expenses | (1) | 4 |
| Accounts payable and accrued | (14) | (2) |
| Income and other taxes | (3) | 9 |
| | \$ (144) | \$ 150 |

Supplemental disclosure of cash flow information (see Note 13)

See accompanying Notes to the Consolidated Financial Statements.

1. Summary of Significant Accounting Policies

Principles of consolidation

The consolidated financial statements include the accounts of Stelco Inc., its wholly owned subsidiaries, and its proportionate share of the accounts of its joint ventures.

Foreign currencies

Monetary assets and liabilities originating in foreign currencies are translated at year-end exchange rates. All other assets and liabilities originating in foreign currencies are translated at historic rates prevailing when the assets were acquired or the liabilities incurred. Income and expense items, other than those related to assets and liabilities translated at historic rates, are translated at the average rates for the year.

Gains or losses resulting from foreign currency translations are reflected in the Consolidated Statement of Earnings.

The temporal method of translation of foreign currency is followed for foreign subsidiaries, all of which are considered to be financially and operationally integrated. Translation of foreign currencies for the foreign subsidiaries is consistent with the method described above.

Inventories

Inventories are valued at the lowest of cost, replacement cost, and net realizable value. Physical quantities are normally confirmed once a year.

Property, plant, and equipment

Property, plant, and equipment is recorded at historical cost less investment tax credits earned and includes construction in progress. Amortization is provided using the straight-line method applied to the cost of the assets at rates based on their estimated useful life and beginning from the point when production commences. The following annual amortization rates are in effect:

| | |
|------------------------------------|-----------|
| Buildings | 2½ to 5% |
| Equipment | 6 to 7½% |
| Automotive and mobile equipment | 10 to 20% |
| Raw material plants and properties | 4½ to 5% |

Intangible assets

Intangible assets are computer systems and applications. These assets are recorded at historical cost and are amortized on a straight-line basis over ten years beginning at the point at which the system or application becomes operative.

Blast furnace relines

The Corporation's blast furnaces periodically require extensive relining. The estimated future costs of such relines are charged to earnings on a unit-of-production basis over the period to the next anticipated reline date and are accumulated as a Provision for blast furnace relines. The actual costs of relines are charged against the accumulated provision as incurred.

Research and development

Expenditures for research are expensed as incurred. Expenditures for development are capitalized when applicable; otherwise they are expensed as incurred. No development expense has been capitalized in 2002 or 2001.

Interest

Interest costs are expensed as incurred.

1. Summary of Significant Accounting Policies (continued)

Employee future benefits

The Corporation, its wholly owned business units, wholly owned subsidiaries, and joint ventures maintain a number of defined benefit and defined contribution plans providing pension, other retirement, and post-employment benefits to most of its employees. One subsidiary maintains a multiemployer defined benefit pension plan. Pension plan assets are valued at market-related value for purposes of calculating the expected return on plan assets. The cost of pension and other post-employment benefits (including medical benefits, dental care, life insurance, and certain compensated absences) related to the employees' current service is charged to income annually. The cost is computed on an actuarial basis using the projected benefit method estimating the usage frequency and cost of services covered and management's best estimates of investment yields, salary escalation, and other factors. Past service costs are amortized over the average remaining service life of active employees. The Corporation has elected to use the corridor method to amortize actuarial gains or losses (such as changes in actuarial assumptions and experience gains or losses) over the average remaining service life of active employees. Under the corridor method, amortization is recorded only if the accumulated net actuarial gains or losses exceed 10% of the greater of the accrued benefit obligation and the value of the plan assets. A valuation allowance is recorded against an accrued benefit asset if the asset, less unamortized past service costs and unamortized actuarial losses, exceeds the present value of future service costs for the current active employees. The multiemployer pension plan is accounted for as a defined contribution plan.

Salaried employees hired after July 31, 1997, participate in the Corporation's "Opportunity" program, which includes a flexible credit plan for benefits and a self-directed group RRSP. They do not participate in the defined benefit plans. The Opportunity program is accounted for as a defined contribution plan.

Costs of defined contribution plans are expensed as incurred.

Stock-based compensation plans

The Corporation has a stock option plan and a deferred share unit plan, which are described in Note 12.

Effective January 1, 2002, the Corporation adopted the new accounting standard of the Canadian Institute of Chartered Accountants relating to stock-based compensation. The Corporation applies the intrinsic value based method of accounting for stock-based compensation awards to employees. The standard applies to the awards of stock, or compensation that is based on the value of the Corporation's stock, granted on or after January 1, 2002, under the Corporation's Key Employee Stock Option Plan and the Deferred Stock Unit Plan. The adoption of the new accounting standard has no material effect on the consolidated financial statements.

No compensation expense is recognized for the stock option plan when stock or stock options are issued to employees. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital. Compensation expense for the deferred share unit plan is recognized at the time the compensation is earned. Changes in the fair value of deferred share units are recorded as expense or income.

Income taxes

The Corporation follows the liability method of accounting for future income taxes. Under the liability method, future income tax assets and liabilities are determined based on "temporary differences" (differences between the accounting basis and the tax basis of the assets and liabilities) and are measured using the currently enacted, or substantively enacted, tax rates and laws expected to apply when these differences reverse. Income tax expense or benefit is the sum of the Corporation's provision for current income taxes and the differences between the opening and ending balances of the future income tax assets and liabilities. The effect of increases and decreases to future tax assets and liabilities arising from changes in tax rates is recognized in income in the year the changes occur.

1. Summary of Significant Accounting Policies (continued)

Derivative financial instruments

From time to time, the Corporation is party to certain derivative financial instruments – principally forward foreign exchange contracts. These instruments are not recognized in the consolidated financial statements on inception. Gains and losses on forward foreign exchange contracts are recognized in revenues in the same period as the foreign currency revenues to which they relate. The carrying amounts of derivative financial instruments are included in accounts receivable in the case of contracts in a net receivable position and in accounts payable and accrued liabilities in the case of contracts in a net payable position.

Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Components of Consolidated Income Taxes

The income tax expense differs from the amount calculated by applying Canadian income tax rates (Federal and Provincial) to earnings before income taxes, as follows:

| (in millions) | 2002 | 2001 |
|---|--------|----------|
| Earnings (loss) before income taxes | \$ 9 | \$ (217) |
| Income tax expense (recovery) computed using statutory income tax rates (2002 – 42%; 2001 – 43%) | 4 | (93) |
| Add (deduct): | | |
| Manufacturing and processing credit | (1) | 19 |
| Resource allowance/depletion | (4) | (4) |
| Adjustment to future tax assets and liabilities for enacted changes in tax rates at enactment date | (8) | 27 |
| Current tax benefits after enactment, adjusted for future tax rates | – | 8 |
| Resolution of prior years' tax issues | – | (3) |
| Minimum tax | 6 | 3 |
| Non-recognition of tax assets recorded in prior years | – | 4 |
| Other | (2) | – |
| | (9) | 54 |
| Income tax (recovery) | \$ (5) | \$ (39) |

2. Components of Consolidated Income Taxes (continued)

Components of Future income tax assets and (liabilities) are summarized as follows:

| (In millions) | 2002 | 2001 |
|---|--------|--------|
| Future income tax assets – current | | |
| Employee future benefits | \$ 11 | \$ 10 |
| Non-capital loss carryforward | 55 | 10 |
| Other | 8 | 5 |
| | 74 | 25 |
| Future income tax assets – non-current | | |
| Employee future benefits | 220 | 215 |
| Deferred pension cost | (88) | (80) |
| Non-capital loss carryforward | 106 | 143 |
| Ontario minimum tax | 14 | 13 |
| Plant and equipment – difference in net book value and undepreciated capital cost | (156) | (158) |
| Other | (9) | (19) |
| | 87 | 114 |
| Future income tax liability – non-current | | |
| Foreign | | |
| Employee future benefits | 28 | 29 |
| Investment in joint ventures | (30) | (32) |
| Other | (3) | (4) |
| | (5) | (7) |
| Net future income tax asset | \$ 156 | \$ 132 |

Included in the future income tax asset – non-current balance is \$4 million related to capital transactions charged to retained earnings. In addition, the Corporation has \$16 million of foreign future tax assets that have not been recorded.

3. Inventories

| (In millions) | 2002 | 2001 |
|-------------------------------------|--------|--------|
| Raw materials and supplies | \$ 331 | \$ 287 |
| Finished and semi-finished products | 439 | 391 |
| Total Inventories | \$ 770 | \$ 678 |

4. Bank Indebtedness

The weighted average interest rate on bank indebtedness was 5.36% at December 31, 2002 (4.74% at December 31, 2001). The credit facilities are subject to renewal on various dates from 2003 to 2004. Bank indebtedness is secured by accounts receivable, inventories, and various other assets.

5. Property, Plant, and Equipment

| (in millions) | 2002 | 2001 |
|--------------------------------------|----------|----------|
| Raw material plants and properties | \$ 423 | \$ 402 |
| Manufacturing plants and properties | 3,950 | 3,895 |
| | 4,373 | 4,297 |
| Less accumulated amortization | (3,197) | (3,085) |
| | 1,176 | 1,212 |
| Construction in progress | 26 | 87 |
| Total Property, Plant, and Equipment | \$ 1,202 | \$ 1,299 |

6. Intangible Assets

| (in millions) | 2002 | 2001 |
|---|-------|-------|
| Computer systems and applications development in progress | \$ 38 | \$ 13 |

Computer systems and applications are being developed but were not in operation at December 31, 2002. No amortization was recorded in 2002 or 2001.

7. Proportionately Consolidated Joint Ventures and Related Commitments

The Corporation's joint ventures are an integral part of operations and exist to provide raw materials and certain manufacturing, finishing, and sales functions.

On July 31, 2002, PCI-Hilton Corporation (PCI) repaid all outstanding long-term debt in the amount of \$20 million. On the same date, the Corporation acquired the remaining 11% of the PCI joint venture for consideration of \$0.4 million. The transaction had no other material impact on the consolidated financial statements.

The following is a summary of the Corporation's proportionate share of the financial position, operating results, and cash flows of the joint ventures. Financial information for PCI is not included in the 2002 data:

| (in millions) | 2002 | 2001 |
|-----------------------|--------|--------|
| Current assets | \$ 109 | \$ 120 |
| Non-current assets | 189 | 236 |
| Total assets | 298 | 356 |
| Current liabilities | 77 | 92 |
| Long-term liabilities | 33 | 51 |
| Equity | \$ 188 | \$ 213 |

7. Proportionately Consolidated Joint Ventures and Related Commitments (continued)

| (in millions) | 2002 | 2001 |
|---------------|-------|-------|
| Revenue | \$ 90 | \$ 93 |
| Expense | 71 | 71 |
| Net earnings | \$ 19 | \$ 22 |

| (in millions) | 2002 | 2001 |
|--|-------|--------|
| Cash provided by (used for) | | |
| Operating activities | \$ 43 | \$ 39 |
| Investing activities | (34) | (27) |
| Financing activities | (2) | (13) |
| Net increase (decrease) in cash and cash equivalents | \$ 7 | \$ (1) |

Included in the liabilities of the joint ventures is \$1 million (\$26 million in 2001) of debt against which certain assets relating to those entities have been pledged. The decrease is principally due to the repayment of all outstanding debt of PCI.

8. Long-term Debt

| (in millions) | 2002 | 2001 |
|--|--------|--------|
| 10.4% retractable debentures due | | |
| November 30, 2009 (see (a) and (d) below) | \$ 125 | \$ 125 |
| Notes payable at a weighted average interest rate of 10.2% (see (b) below) | 15 | 45 |
| 8% retractable debentures due | | |
| February 15, 2006 (see (c) and (d) below) | 150 | 150 |
| Computer system financing (see (e) below) | 22 | |
| Term loan at 7.75% or Bankers' Acceptance Rate plus 1.00% maturing | | |
| on June 10, 2005 (see (f) below) | 42 | 56 |
| Term loan at Bankers' Acceptance Rate plus 2.25% | | |
| or Canadian Prime Rate plus 1.25% | | |
| maturing on May 1, 2005 (see (f) below) | 16 | 20 |
| Term loan at Bankers' Acceptance Rate plus 2.75% or | | |
| Government of Canada Bond Rate plus 3.55% | | |
| maturing on January 31, 2003 (see (f) below) | — | 23 |
| Term loan at 7.71% maturing on November 30, 2003 (see (f) below) | 5 | 10 |
| Term loan at 7.01% maturing on January 31, 2008 (see (f) below) | 67 | 76 |
| Term loan at 6.20% maturing on July 4, 2005 (see (f) below) | 3 | 5 |
| Term loan at 7.20% maturing on January 3, 2008 (see (f) below) | 10 | — |
| Term loans at Bankers' Acceptance Rate plus 1.00 to 1.125% or | | |
| Canadian Prime Rate plus 0.5% maturing | | |
| on January 3, 2008 (see (f) below) | 18 | 17 |
| | 473 | 527 |
| Less amount due within one year | 54 | 71 |
| Total Long-term Debt | \$ 419 | \$ 456 |

8. Long-term Debt (continued)

The estimated fair value of the Corporation's long-term debt, net of amount due within one year, was approximately \$433 million at December 31, 2002 (\$417 million at December 31, 2001). (See Note 15)

Annual sinking fund and other repayments of long-term debt over the next five years amount to \$53 million in 2003, \$36 million in 2004, \$41 million in 2005, \$169 million in 2006, and \$21 million in 2007.

(a) The Debentures mature on November 30, 2009 but are redeemable after November 30, 1999 at the option of the Corporation at a redemption price equal to the greater of the Canada Yield Price and par. Canada Yield Price means, in effect, a price for the Debentures calculated on the business day preceding the date on which the Corporation gives notice of redemption, to provide a yield to maturity equal to the yield on a non-callable Government of Canada bond, issued at 100% of its principal amount with a term to maturity equal to the remaining term to maturity of the Debentures, plus 0.40%.

(b) Under certain circumstances, which include changes in ownership of the Corporation, the lender can require immediate repayment of principal and accrued interest of this indebtedness. The notes are payable in semi-annual instalments ending on May 31, 2003.

(c) The Debentures mature on February 15, 2006 but are redeemable at any time at the option of the Corporation at a redemption price equal to the greater of the Canada Yield Price and par. Canada Yield Price means, in effect, a price for the Debentures calculated on the business day preceding the date on which the Corporation gives notice of redemption, to provide a yield to maturity equal to the yield on a non-callable Government of Canada bond, issued at 100% of its principal amount with a term to maturity equal to the remaining term to maturity of the Debentures, plus 0.50%.

(d) Throughout the life of the Debentures, upon the occurrence of both a designated event and a rating decline, a holder of Debentures may require the Corporation to purchase all or any portion of such holder's Debentures unless a rating recovery has occurred. For these purposes, designated event includes significant changes in ownership, control or structure of the Corporation or membership of the Board of Directors or certain distributions of cash, property, or securities excluding regular dividends and distributions of non-redeemable and non-retractable shares of the Corporation.

(e) The Corporation has arranged financing with the service provider (see Note 9 (c)) primarily relating to the development cost of new enterprise resource planning systems during the 24-month period beginning April 1, 2002, at an interest rate of 9.1% to a maximum of \$47 million plus accrued interest. Repayment of this financing commences in October 2004 and will be complete in February 2012 under the present arrangements.

(f) These term loans are secured by claims on the assets of the borrowers (various subsidiaries and joint ventures of the Corporation) and are payable in monthly, quarterly, or semi-annual instalments ending on the maturity dates shown.

9. Commitments

(a) Capital programs

The estimated cost to complete capital programs is \$280 million. Of this amount, \$195 million relates to Phase II of the Stelco Lake Erie hot strip mill upgrade. This project will commence only when appropriate financing is arranged. An additional \$50 million pertains to the enterprise resource planning (ERP) system projects (See Notes 8 and 9 (c)). The ERP projects and other capital programs will be completed over a period of two years.

9. Commitments (continued)

(b) Operating leases

Future minimum rental payments required under operating leases that have initial or remaining lease terms in excess of one year at December 31, 2002 are:

(in millions)

| | |
|------------------------|--------|
| 2003 | \$ 38 |
| 2004 | 30 |
| 2005 | 18 |
| 2006 | 13 |
| 2007 | 9 |
| Subsequent to 2007 | 8 |
| Total Operating leases | \$ 116 |

(c) Information technology outsourcing agreement

On April 1, 2002, the Corporation entered into a ten-year agreement to outsource information technology support, development, and implementation services (IT). The estimated annual commitment over the term of the agreement, including development and financing costs, is comparable to Stelco's planned annual IT expense at the date the contract was implemented.

10. Convertible Debentures

On January 21, 2002, the Corporation issued \$90 million of 9.5% Convertible Unsecured Subordinated Debentures ("Debentures") due February 1, 2007 for net proceeds of \$87 million. The effective interest rate on the Debentures is 16.65%. The Debentures are convertible at the option of the holder into Series A Convertible Common Shares ("Shares") of the Corporation at any time prior to the maturity date at a conversion price of \$4.50 per share. The Debentures are redeemable by the Corporation, under certain circumstances, on and after February 1, 2005. The Corporation has the option to pay interest in cash, or by the issuance to a Trustee of Shares, the proceeds of the sale of which would be used to discharge the interest payment to the holder. The Corporation has the option to repay the principal amount of the Debentures, at redemption or maturity, in cash or by the issuance of Shares directly to the holder. The Debentures have been classified as a component of shareholders' equity with \$67 million allocated to the principal element and \$23 million allocated to the value of the debenture holders' conversion option. The principal element of the Debentures is being accreted over the five-year term to an amount of \$90 million, which is the face value of the Debentures, by a charge to retained earnings.

Carrying charges, including interest net of tax and accretion, are charged to retained earnings and are included in the computation of basic and fully diluted earnings (loss) per common share.

(in millions)

| | |
|--|-------|
| Interest accrued | \$ 9 |
| Accretion | 4 |
| Future income taxes deductible on interest | (3) |
| Convertible Debentures charges | \$ 10 |

No Debentures were converted into Shares during 2002.

11. Capital Stock and Dividends

(a) Authorized shares

Under the Canada Business Corporations Act, the Corporation is authorized to issue, in series, unlimited numbers of Preferred Shares and Common Shares without nominal or par value.

(b) Capital stock – Convertible common shares – stated capital

| | 2002 | | | 2001 | | |
|--|------------------------------|----------|------------|------------------------------|----------|------------|
| | Number of shares Series A | Series B | (millions) | Number of shares Series A | Series B | (millions) |
| Opening balance | 102,197,208 | 46,663 | \$ 781 | 102,199,551 | 44,321 | \$ 781 |
| Transfers between series (see below) | (23,390) | 23,390 | – | (2,343) | 2,343 | – |
| Exercise of stock options (see Note 12) | 5,334 | – | – | – | – | – |
| Fractional shares purchased and cancelled | – | (2) | – | – | (1) | – |
| Outstanding | 102,179,152 | 70,051 | \$ 781 | 102,197,208 | 46,663 | \$ 781 |

The Convertible Common Shares of each series are voting, convertible into one another on a share-for-share basis, and rank equally in all respects except that the dividends on the Series B Convertible Common Shares may be paid by way of a stock dividend in Series B Convertible Common Shares in accordance with the conditions attaching to such shares, and dividends on the Series A Convertible Common Shares are normally payable in cash.

Normal course issuer bid

A normal course issuer bid, which was approved in March 2000, expired on March 15, 2001. No shares were purchased in 2001.

(c) Dividends

No dividends were declared in 2002 or 2001.

(d) Earnings (loss) per common share

Basic earnings (loss) per common share is calculated including charges to retained earnings related to the convertible debentures (see Note 10). Fully diluted earnings (loss) per common share is calculated by applying the treasury stock method for the potential exercise of stock options, and assuming the dilutive effect of the conversion of all outstanding convertible debentures as of January 21, 2002, the date of issuance, at the stated conversion price.

| (\$ in millions) | 2002 | 2001 |
|--|-------------|-------------|
| Net earnings (loss) | \$ 14 | \$ (178) |
| Convertible debentures – net charge to retained earnings | (10) | |
| | \$ 4 | \$ (178) |
| Weighted average number of common shares outstanding – basic | 102,247,406 | 102,243,871 |
| Incremental number of common shares assumed to be issued on the exercise of stock options | 221,333 | 8,593 |
| Common shares issued on the assumed conversion of convertible debentures | 18,904,110 | |
| Weighted average number of common shares outstanding – fully diluted | 121,372,849 | 102,252,464 |
| Options to purchase common shares not included in the above calculation* | 2,481,678 | 2,803,009 |

*exercise prices were greater than the average market price of the common shares during the years.

11. Capital Stock and Dividends (continued)

Shareholder rights plan (the "Plan")

The Plan will expire at the Annual Meeting in 2008. It must be confirmed by shareholders every three years. It was last confirmed by shareholders in April 2002. The purpose of the Plan is to give the Board of Directors and the shareholders sufficient time to consider the terms of a takeover bid and allow more time for the Board to pursue, if appropriate, other alternatives to maximize shareholder value.

Under the Plan, each shareholder is issued one Common Share Purchase Right (a "Right") for each Common Share and each holder of a convertible subordinated debenture receives one Debenture Right ("Debenture Right"). The Rights and Debenture Rights become exercisable at the earlier of (i) the date of acknowledgment that a person or group of affiliated or associated persons (an "Acquiring Person") has acquired beneficial ownership of 20% or more of the Corporation's outstanding voting shares, subject to certain exceptions; (ii) the date of the commencement of or first public announcement of the intent of any person to commence a takeover bid; (iii) the date on which a "Permitted Bid" ceases to qualify as such or such later time as may be determined by the Board of Directors. Should a person become an Acquiring Person (a "Flip-in Event"), each Right entitles the registered holder thereof, other than the Acquiring Person and related persons, to purchase from the Corporation one Common Share at a price equal to 50% of the market price per Common Share determined at that time, subject to adjustment, and each Debenture Right entitles the registered holder thereof to one Right for each Common Share into which the subordinated convertible debenture may then be converted.

A Permitted Bid is a takeover bid made to all holders of the Corporation's Common Shares and that is open for acceptance for not less than 60 days. A Permitted Bid represents a means by which a person may acquire shares not in contravention of the intent of the Plan.

Other than as described above, the Rights are not exercisable and cannot be transferred apart from the Common Shares and the Debenture Rights are not exercisable and cannot be transferred apart from the debentures. The holder of a Right or Debenture Right, as such, has no rights as a shareholder of the Corporation including, without limitation, the right to vote or to receive dividends. At any time prior to a Flip-in Event, the Board of Directors may redeem the Rights or Debenture Rights in whole (but not in part) at a redemption price of \$0.001 per Right (subject to adjustment in certain events) and subject to shareholder approval.

12. Stock-based Compensation

Key Employee Stock Option Plan

Under the Key Employee Stock Option Plan (KESOP), 13,000,000 Convertible Common Shares are reserved for issuance, of which 3,549,653 shares remained available at December 31, 2002. Under the KESOP, the exercise price of each option equals the market price of the Corporation's Convertible Common Shares on the date of the grant. Accordingly, no compensation cost is recorded at the time of the grant. Details of the 4,560,013 options outstanding at December 31, 2002, are provided in the table on page 43. Options granted at \$11.55, \$8.30, \$10.90, \$8.80, \$3.73, and \$4.50 mature 10 years after the date of the grant. All other options mature seven years after the date of the grant. Options granted at \$6.30, \$10.35, \$11.55, \$8.30, \$10.90, \$8.80, \$3.73, and \$4.50 vest, or vested, $\frac{1}{3}$ each year in the first three years after the date of the grant. All other options vested one year after the date of the grant.

12. Stock-based Compensation (continued)

Options outstanding at December 31, 2002 are as follows:

| Shares | Exercise price per share | Number exercisable | Expiry date |
|-----------|--------------------------|--------------------|------------------|
| 111,000 | \$6.500 | 111,000 | February 8, 2003 |
| 270,000 | \$6.300 | 270,000 | June 24, 2003 |
| 261,000 | \$7.750 | 261,000 | February 6, 2004 |
| 150,000 | \$10.350 | 150,000 | June 26, 2004 |
| 542,002 | \$11.550 | 542,002 | February 5, 2008 |
| 588,335 | \$8.300 | 588,335 | February 8, 2009 |
| 100,000 | \$10.900 | 100,000 | July 12, 2009 |
| 459,341 | \$8.800 | 321,356 | February 8, 2010 |
| 1,052,335 | \$3.730 | 353,687 | February 7, 2011 |
| 1,026,000 | \$4.500 | — | February 6, 2012 |
| 4,560,013 | | 2,697,380 | |

A summary of option activity during 2002 and 2001 is as follows:

| | 2002 | | 2001 | |
|----------------------------------|-----------|---------------------------------|-----------|---------------------------------|
| | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price |
| Outstanding at beginning of year | 3,880,009 | \$ 7.404 | 2,936,336 | \$ 8.784 |
| Granted | 1,040,000 | 4.500 | 1,112,000 | 3.730 |
| Exercised | (5,334) | 3.370 | — | — |
| Expired or cancelled | (354,662) | 7.248 | (168,327) | 7.214 |
| Outstanding at end of year | 4,560,013 | \$ 6.758 | 3,880,009 | \$ 7.404 |
| Exercisable at end of year | 2,697,380 | \$ 8.296 | 2,293,380 | \$ 8.826 |

Under the intrinsic value based method of accounting for stock-based compensation, no compensation cost was recorded for the grant made under the KESOP on February 6, 2002, since the exercise price of each option equals the market price of the Corporation's Convertible Common Shares on the date of the grant. For disclosure purposes, the compensation cost for the grant made under the KESOP on February 6, 2002, was determined at the grant date using the fair value method by applying the Black-Scholes option pricing model and the following assumptions: expected volatility – 20%; risk-free interest rate – 4.5%; expected life – 4 to 6 years; expected dividends – nil. The resultant fair value would have reduced the Corporation's net earnings for the year ended December 31, 2002 by \$0.4 million and would not have affected earnings per common share.



12. Stock-based Compensation (continued)

Deferred Share Unit Plan

On May 1, 2001, the Board of Directors approved a Deferred Share Unit Plan (the "Plan") for members of the Board and certain officers of the Corporation and its subsidiaries. The Plan became effective on July 1, 2001. Under the terms of the Plan, a Director may elect to receive all or a portion of his or her compensation, and certain officers may elect to receive all or a portion of certain elements of their compensation, in the form of notional Series A Convertible Common Shares of the Corporation (the "Shares"), which are referred to as deferred share units (DSUs). Annual elections are generally required. The number of DSUs to be credited to a "Unit holder's" account is determined by dividing the applicable amount of the compensation by the market value of the Shares at the time the compensation would otherwise have been paid. The DSUs are redeemable in cash in an amount equivalent to the number of DSUs in the Unit holder's account, multiplied by the market value of the Shares at the time of redemption determined following retirement or termination of employment.

A summary of activity during 2002 and 2001 is as follows:

| | 2002 | | 2001 | |
|----------------------------------|----------------|------------------------|---------|------------------------|
| | DSUs | Weighted average price | DSUs | Weighted average price |
| Outstanding at beginning of year | 122,101 | \$ 3.220 | | |
| Granted | 149,009 | 4.257 | 122,101 | \$ 3.970 |
| Exercised | 1,133 | 3.810 | — | — |
| Outstanding at end of year | 269,977 | \$ 3.810 | 122,101 | \$ 3.220 |

For the year ended December 31, 2002, a compensation cost of \$0.6 million has been recorded for the Plan (\$0.4 million in 2001).

13. Supplemental Disclosure of Cash Flow Information

| (in millions) | 2002 | 2001 |
|---|--------------|-------|
| Cash paid for Interest (including convertible debentures) | \$ 53 | \$ 54 |
| Cash paid for Income taxes | 16 | 18 |
| Expenditures for capital assets resulting from an increase (decrease) in associated accounts payable and accrued liabilities | (9) | 5 |
| Expenditures for intangible assets financed directly by the service provider and excluded from the Consolidated Statement of Cash Flows (Note 8 (e)) | 19 | 1 |

14. Employee Future Benefits

The Corporation, its wholly owned business units, wholly owned subsidiaries, and joint ventures maintain a number of defined benefit and defined contribution plans providing pension, other retirement, and post-employment benefits to most of its employees.

The total expense for the Corporation's defined contribution pension plans was \$2.1 million in 2002 (\$1.7 million in 2001).

One of the Corporation's subsidiaries (Chisholm Coal) participates in a United Mine Workers of America multiemployer defined benefit plan providing pension benefits. This plan, to which contributions totalled \$6,000 in 2002 (\$17,000 in 2001), is accounted for as a defined contribution plan but the contributions are not included in the above-noted defined contribution pension plan expense.

14. Employee Future Benefits (continued)

Information about the Corporation's defined benefit plans, other than the multiemployer defined benefit plan, in aggregate, is as follows:

| (in millions) | 2002 | | 2001 | |
|--|--------------------------|------------------------|--------------------------|------------------------|
| | Pension benefit plans | Other benefit plans | Pension benefit plans | Other benefit plans |
| Accrued benefit obligation | | | | |
| Balance at beginning of year | \$ 2,748 | \$ 924 | \$ 2,571 | \$ 830 |
| Increase in ownership of joint venture | 11 | 2 | — | — |
| Current service cost | 49 | 14 | 45 | 11 |
| Interest cost | 192 | 62 | 181 | 58 |
| Benefits paid | (183) | (52) | (167) | (44) |
| Actuarial losses | 189 | 135 | 114 | 69 |
| Exchange | — | (2) | — | — |
| Plan amendments | 255 | (1) | 4 | — |
| Balance at end of year | 3,261 | 1,082 | 2,748 | 924 |
| Plan assets | | | | |
| Fair value at beginning of year | 2,822 | 9 | 2,943 | 8 |
| Increase in ownership of joint venture | 11 | — | — | — |
| Actual return on plan assets | (76) | (1) | 14 | — |
| Administrative expenses paid | (6) | — | (3) | — |
| Employer contributions | 41 | 1 | 35 | 1 |
| Exchange | 2 | — | — | — |
| Benefits paid | (183) | — | (167) | — |
| Fair value at end of year | 2,611 | 9 | 2,822 | 9 |
| Funded status – plan surplus (deficit) | (650) | (1,073) | 74 | (915) |
| Unamortized net actuarial loss | 679 | 186 | 195 | 52 |
| Unamortized past service costs | 272 | — | 27 | — |
| Accrued benefit asset (liability) | 301 | (887) | 296 | (863) |
| Valuation allowance | (2) | — | (15) | — |
| Accrued benefit asset (liability), net of valuation allowance | \$ 299 | \$ (887) | \$ 281 | \$ (863) |

The accrued benefit asset (liability) is reflected in the Consolidated Statement of Financial Position as follows:

| (in millions) | 2002 | | 2001 | |
|--|--------------------------|------------------------|--------------------------|------------------------|
| | Pension benefit plans | Other benefit plans | Pension benefit plans | Other benefit plans |
| Deferred pension cost | \$ 299 | \$ — | \$ 281 | \$ — |
| Employee future benefits liability – current | — | (47) | — | (44) |
| Employee future benefits liability – non-current | — | (840) | — | (819) |
| Total | \$ 299 | \$ (887) | \$ 281 | \$ (863) |

14. Employee Future Benefits (continued)

Included in the above accrued benefit obligation and fair value of plan assets at year-end are the following amounts in respect of plans that are not fully funded:

| (in millions) | 2002 | | 2001 | |
|--------------------------------|-----------------------|---------------------|-----------------------|---------------------|
| | Pension benefit plans | Other benefit plans | Pension benefit plans | Other benefit plans |
| Accrued benefit obligation | \$ 3,130 | \$ 1,082 | \$ 457 | \$ 924 |
| Fair value of plan assets | 2,467 | 9 | 389 | 9 |
| Funded status – plan (deficit) | \$ (663) | \$ (1,073) | \$ (68) | \$ (915) |

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligations are as follows (weighted-average assumptions as of December 31):

| (in millions) | 2002 | | 2001 | |
|--|-----------------------|---------------------|-----------------------|---------------------|
| | Pension benefit plans | Other benefit plans | Pension benefit plans | Other benefit plans |
| Discount rate | 6.25% | 6.00–6.75% | 6.75% | 6.50–6.75% |
| Expected long-term rate of return on plan assets | 7.75% | 8.40% | 7.75% | 8.50% |
| Estimated rate of compensation increase | 4.00% | 4.00% | 4.00% | 4.00% |

For measurement purposes, a 7.7% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2002. The rate was assumed to decrease to 4.3% for 2001 and remain at that level thereafter (2001 – assumed a 5.9% increase in 2002, decreasing to 4.2% in 2005 and thereafter).

The Corporation's net benefit plan expense is as follows:

| (in millions) | 2002 | | 2001 | |
|------------------------------------|-----------------------|---------------------|-----------------------|---------------------|
| | Pension benefit plans | Other benefit plans | Pension benefit plans | Other benefit plans |
| Expense | | | | |
| Current service cost | \$ 49 | \$ 14 | \$ 45 | \$ 11 |
| Interest cost | 192 | 62 | 181 | 58 |
| Expected return on plan assets | (218) | (1) | (215) | (1) |
| Amortization of actuarial losses | 1 | 1 | – | 5 |
| Amortization of past service costs | 12 | – | 3 | – |
| Adjustments to valuation allowance | (13) | – | – | – |
| Other | 6 | – | 4 | – |
| Net benefit plan expense | \$ 29 | \$ 76 | \$ 18 | \$ 73 |

Pension benefit plans

The increase in unamortized past service costs at December 31, 2002, of \$245 million relates to pension benefits provided in the August 1, 2002, labour contracts at Stelco Hamilton and Stelco-McMaster Ltée. The labour contract settlements will increase pension expense by approximately \$26 million and pension funding by approximately \$11 million in 2003 compared with 2002.

The increase in unamortized net actuarial loss for the pension benefit plans of \$484 million is partly due to the difference of \$294 million between the expected return on plan assets, which has been computed using the expected long-term rate of return on plan assets for 2002 (7.75% – unchanged from 2001), and the actual rate of return on plan assets for 2002. Management is of the opinion that the rate of 7.75% for the Corporation's pension plans is indicative of reasonable expected long-term performance of these plans. Long-term rate assumptions are reviewed annually.

14. Employee Future Benefits (continued)

The unamortized net actuarial loss on the pension benefit plans was also increased by \$189 million as a result of the reduction in the discount rate from 6.75% to 6.25% in the principal plans. This change was required to reflect the reduction in the rate of return on high-quality investments with a term and cash flow similar to the liabilities of the pension plans. The reduction in the pension benefit plan discount rate will increase 2003 pension expense by approximately \$3 million from 2002.

Lower returns on pension fund assets over the past two years have impacted the actual rate of return on plan assets and will increase pension expense by approximately \$14 million and pension funding by approximately \$5 million in 2003 compared with 2002.

Other benefit plans

The increase in unamortized net actuarial loss on other benefit plans of \$134 million is principally related to the change in assumptions regarding health care costs as described in this Note. The change in assumptions was made based on a review of cost information provided by the Corporation's actuaries and reflects current and projected trends. The change in the assumed increase in per capita cost of health care in the plans will increase 2003 employee future benefits expense by approximately \$11 million.

15. Financial Instruments

Risk management activities

Interest rate risk

The Corporation did not enter into any interest rate swap agreements during 2002 and as at December 31, 2002, no interest rate swap agreements were in place. At December 31, 2001, the interest rate swap agreements then in place, with notional aggregate principal of approximately \$9 million, entitled the Corporation to receive fixed rate interest in Canadian dollars on the notional principal amounts of the contract and obliged it to pay floating rate interest in both Canadian and U.S. dollars. These swap agreements were settled in 2002, with the counterparty, which is a Canadian chartered bank.

Foreign exchange risk

At December 31, 2001, the Corporation had outstanding foreign exchange contracts to sell US \$18 million. These contracts were settled in 2002. No foreign exchange contracts were outstanding as at December 31, 2002.

Concentration of credit risk

The Corporation does not have significant exposure to any individual customer or counterparties. The major markets for the Corporation's products are the automotive sector, steel service centres, the construction industry, various industries that utilize pipe and tube products, and wire and wire products. Except in a few situations where the risk warrants it, the Corporation does not require collateral on trade receivables. The Corporation reviews its customers' credit histories before extending credit and conducts regular reviews of its existing customers' credit performances. Overall, credit risk related to the Corporation's trade receivables is limited due to the large number of customers in differing industries and geographical areas.

Fair values

The fair value of long-term debt is based on quoted market prices where applicable or on discounted future cash flows, including interest payments, using rates currently available for debt of similar terms and maturities (see Note 8). The carrying value of other financial instruments approximates fair value due to the short maturities or the terms and conditions attached to these instruments.

There were no interest rate swap agreements outstanding as at December 31, 2002 (2001 – net unfavourable position and constituted an unrecognized financial liability with a fair value of \$950,000).

There were no foreign exchange contracts outstanding as at December 31, 2002 (2001 – net unfavourable position and constituted an unrecognized financial liability with a fair value of \$300,000).

The fair value of interest rate swap and forward foreign exchange contracts is based on amounts quoted by the Corporation's banker to realize favourable contracts or settle unfavourable contracts, taking into account current interest rates or foreign exchange rates.

16. Shutdown of "D" Blast Furnace

As a result of the decision to permanently shut down "D" blast furnace at Stelco Hamilton, a one-time, non-cash credit to costs of \$14 million was recorded in third quarter 2002, consisting of an adjustment to the provision for blast furnace relines – beyond one year, partially offset by certain charges associated with the "D" furnace shutdown.

17. Settlement

In 2001, a favourable legal settlement was achieved involving one of the Corporation's U.S. subsidiaries. The award, which was largely accumulated interest, was included in costs (Cdn \$17 million). The total award, after tax, was Cdn \$14 million (\$0.14 per common share).

18. Segmented Information

The Corporation operates, primarily within the North American market, as a group of businesses producing and marketing a wide range of steel products. Businesses in the Integrated Steel segment produce raw materials (coal and ore) and manufacture and sell hot rolled, cold rolled, and coated sheet; plate; and bar and rod. Businesses in the Mini-mill segment provide scrap as a raw material, and manufacture and sell billets, merchant bars, and special quality bar products. Businesses comprising the Manufactured Products segment manufacture and sell wire and wire products, large- and small-diameter pipe, and forged grinding balls. Intersegment sales are recorded at market value.

| (\$ millions) | 2002 | 2001 |
|---|----------|----------|
| Net sales – trade | | |
| Integrated Steel | \$ 2,336 | \$ 2,070 |
| Mini-mill | 257 | 315 |
| Manufactured Products | 429 | 434 |
| Intersegment sales | | |
| Integrated Steel | (177) | (194) |
| Mini-mill | (60) | (62) |
| Manufactured Products | (1) | (2) |
| Net sales | \$ 2,784 | \$ 2,561 |
| Shipments – trade (thousands of net tons) | | |
| Integrated Steel | 4,126 | 4,021 |
| Mini-mill | 597 | 794 |
| Manufactured Products | 486 | 496 |
| Intersegment shipments | | |
| Integrated Steel | (359) | (429) |
| Mini-mill | (170) | (192) |
| Manufactured Products | – | – |
| Shipments | 4,680 | 4,690 |

18. Segmented Information (continued)

| (\$ millions) | 2002 | 2001 |
|---------------------------------|----------|----------|
| Operating earnings (loss) | | |
| Integrated Steel | \$ 51 | \$ (175) |
| Mini-mill | 14 | 26 |
| Manufactured Products | (7) | (15) |
| Operating earnings (loss) | \$ 58 | \$ (164) |
| Assets | | |
| Integrated Steel | 2,495 | 2,412 |
| Mini-mill | 198 | 207 |
| Manufactured Products | 247 | 209 |
| Assets | \$ 2,940 | \$ 2,828 |
| Amortization of capital assets | | |
| Integrated Steel | 116 | 121 |
| Mini-mill | 8 | 7 |
| Manufactured Products | 4 | 4 |
| Amortization of capital assets | \$ 128 | \$ 132 |
| Expenditures for capital assets | | |
| Integrated Steel | 31 | 45 |
| Mini-mill | 7 | 26 |
| Manufactured Products | 10 | 2 |
| Expenditures for capital assets | \$ 48 | \$ 73 |
| Geographic segments | | |
| Net sales | | |
| Canada | 2,317 | 2,154 |
| United States | 420 | 346 |
| Other | 47 | 61 |
| Net sales | \$ 2,784 | \$ 2,561 |
| Capital assets – net | | |
| Canada | 1,173 | 1,240 |
| United States | 67 | 72 |
| Capital assets – net | \$ 1,240 | \$ 1,312 |

19. Comparative Figures

Certain 2001 comparative figures have been reclassified to conform with the disclosure adopted for 2002.

| (\$ in millions, except as indicated*) | 2002 | 2001 | 2000 | 1999 | 1998 |
|--|----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Operations (thousands of net tons) | | | | | |
| Production of semi-finished steel | 5,149 | 4,959 | 5,594 | 5,217 | 5,256 |
| Steel shipments | 4,680 | 4,690 | 4,684 | 4,862 | 4,607 |
| Income and expense | | | | | |
| Net sales | \$ 2,784 | 2,561 | 2,837 | 3,101 | 3,168 |
| Costs | \$ 2,598 | 2,593 | 2,638 | 2,765 | 2,824 |
| EBITDA** | \$ 186 | (32) | 199 | 336 | 344 |
| Amortization of property, plant, and equipment | \$ 128 | 132 | 149 | 142 | 135 |
| Operating earnings (loss) | \$ 58 | (164) | 50 | 194 | 209 |
| Financial expense | | | | | |
| Interest on long-term debt | \$ 43 | 49 | 55 | 57 | 50 |
| Other interest (income) expense – net | \$ 6 | 4 | (7) | (13) | (12) |
| Earnings (loss) before income taxes | \$ 9 | (217) | 2 | 150 | 171 |
| Income taxes – recovery (expense) | \$ 5 | 39 | 2 | (43) | (52) |
| Net earnings (loss) | \$ 14 | (178) | 4 | 107 | 119 |
| Earnings (loss) per common share ⁽¹⁾⁽⁶⁾ | *\$ 0.04 | (1.74) | 0.04 | 0.97 | 1.04 |
| – Fully diluted | *\$ 0.04 | (1.74) | 0.04 | 0.95 | 1.03 |
| **Earnings before interest, income taxes, and amortization of property, plant, and equipment | | | | | |
| Financial position | | | | | |
| Cash and cash equivalents | \$ 67 | 41 | 45 | 176 | 147 |
| Other current assets | \$ 1,236 | 1,060 | 1,192 | 1,147 | 1,186 |
| Total current assets | \$ 1,303 | 1,101 | 1,237 | 1,323 | 1,333 |
| Bank indebtedness | \$ 145 | 76 | 43 | 6 | 13 |
| Other current liabilities | \$ 556 | 587 | 571 | 614 | 678 |
| Total current liabilities | \$ 701 | 663 | 614 | 620 | 691 |
| Working capital | \$ 602 | 438 | 623 | 703 | 642 |
| Property, plant, and equipment | \$ 1,202 | 1,299 | 1,384 | 1,386 | 1,309 |
| Intangible assets (net) (see Note 6) | \$ 38 | 13 | | | |
| Other non-current assets | \$ 397 | 415 | 347 | 201 | 191 |
| Total investment | \$ 2,239 | 2,165 | 2,354 | 2,290 | 2,142 |
| Long-term debt | \$ 419 | 456 | 508 | 576 | 474 |
| Other non-current liabilities | \$ 907 | 892 | 851 | 258 | 229 |
| Shareholders' equity | \$ 913 | 817 | 995 | 1,456 | 1,439 |
| Convertible debentures | \$ 92 | | | | |
| Preferred shareholders' equity | \$ – | – | – | – | 67 |
| Common shareholders' equity | \$ 821 | 817 | 995 | 1,456 | 1,372 |
| Shareholders' equity | \$ 913 | 817 | 995 | 1,456 | 1,439 |
| Common shareholders' equity per common share | *\$ 8.03 | 7.99 | 9.73 | 13.80 | 12.95 |
| Cash flows⁽³⁾ | | | | | |
| Net cash provided by (used for): | | | | | |
| Operating activities | \$ (10) | 69 | 75 | 224 | 171 |
| Investing activities | | | | | |
| Expenditures for capital assets | \$ (48) | (73) | (148) | (222) | (212) |
| Proceeds from sale of assets | \$ – | 21 | – | – | – |
| Other investment activities (net) | \$ 8 | – | 6 | 20 | 20 |
| Financing activities | | | | | |
| Increase (reduction) in bank indebtedness | \$ 69 | 33 | 37 | (7) | (9) |
| Net proceeds from issue of long-term debt | \$ 11 | 19 | 1 | 168 | 57 |
| Reduction of long-term debt | \$ (87) | (70) | (64) | (64) | (67) |
| Net proceeds from issue of convertible debentures | \$ 87 | | | | |
| Purchase or redemption of preferred shares | \$ – | – | – | (67) | (98) |
| Net proceeds from issue of common shares | \$ – | – | – | 3 | 2 |
| Purchase of common shares | \$ – | – | (26) | (8) | (17) |
| Interest paid on convertible debentures | \$ (4) | | | | |
| Cash dividends paid | \$ – | (3) | (12) | (18) | (22) |
| Net increase (decrease) in Cash and cash equivalents | \$ 26 | (4) | (131) | 29 | (175) |
| Cash and cash equivalents at end of year | \$ 67 | 41 | 45 | 176 | 147 |
| Other data | | | | | |
| Return on average capital employed ⁽⁵⁾ | % 1.7 | (6.7) | 1.5 | 6.2 | 6.8 |
| Return on average common shareholders equity ⁽⁶⁾ | % 1.7 | (19.7) | 0.3 | 7.3 | 8.4 |
| Long-term debt/equity – % of total capital | 34/66 | 39/61 | 37/63 | 31/69 | 27/73 |
| Dividends declared – preferred ⁽⁷⁾ | \$ – | – | – | 4 | 7 |
| Dividends declared – common | \$ – | – | 12 | 13 | 13 |
| Per common share | *\$ – | – | 0.12 | 0.12 | 0.12 |
| Common shares outstanding at year-end (millions) | 102.2 | 102.2 | 102.2 | 105.5 | 105.9 |
| Average number of employees including joint ventures ⁽⁴⁾ | 9,749 ⁽⁸⁾ | 10,096 ⁽⁸⁾ | 10,811 ⁽⁸⁾ | 11,133 ⁽⁸⁾ | 11,670 ⁽⁸⁾ |
| Number of pensioners at year-end | 12,803 | 12,276 | 12,134 | 12,019 | 11,788 |
| Pensions paid during the year | \$ 183 | 167 | 156 | 145 | 141 |

| 1997 | 1996 | 1995 | 1994 | 1993 | 1992 |
|-----------------------|-----------------------|-----------------------|-----------------------|--------|--------|
| 5,108 | 5,009 | 4,970 | 4,841 | 4,924 | 4,680 |
| 4,818 | 4,577 | 4,380 | 4,460 | 4,492 | 4,176 |
| 3,149 | 2,941 | 2,926 | 2,916 | 2,491 | 2,203 |
| 2,760 | 2,638 | 2,521 | 2,553 | 2,314 | 2,176 |
| 389 | 303 | 405 | 363 | 177 | 27 |
| 129 | 132 | 130 | 138 | 122 | 128 |
| 260 | 171 | 275 | 225 | 55 | (101) |
| 43 | 46 | 63 | 75 | 78 | 82 |
| (7) | (6) | (12) | (2) | 7 | 8 |
| 224 | 131 | 224 | 152 | (30) | (191) |
| (87) | (52) | (68) | (37) | (6) | 64 |
| 137 | 79 | 156 | 115 | (36) | (127) |
| 1.17 | 0.63 | 1.35 | 1.01 | (0.62) | (1.76) |
| 1.14 | N/A | N/A | N/A | N/A | N/A |
| 322 | 165 | 190 | 267 | 111 | 68 |
| 1,086 | 1,021 | 1,000 | 962 | 816 | 799 |
| 1,408 | 1,186 | 1,190 | 1,229 | 927 | 867 |
| 22 | 17 | 67 | 156 | 176 | 190 |
| 607 | 549 | 548 | 550 | 452 | 398 |
| 629 | 566 | 615 | 706 | 628 | 588 |
| 779 | 620 | 575 | 523 | 299 | 279 |
| 1,236 | 1,129 | 1,223 | 1,277 | 1,194 | 1,309 |
| 189 | 173 | 121 | 81 | 243 | 247 |
| 2,204 | 1,922 | 1,919 | 1,881 | 1,736 | 1,835 |
| 486 | 393 | 457 | 581 | 695 | 767 |
| 264 | 203 | 198 | 140 | 112 | 101 |
| 1,454 | 1,326 | 1,264 | 1,160 | 929 | 967 |
| 166 | 167 | 172 | 178 | 178 | 178 |
| 1,288 | 1,159 | 1,092 | 982 | 751 | 789 |
| 1,454 | 1,326 | 1,264 | 1,160 | 929 | 967 |
| 12.00 | 11.02 | 10.39 | 9.04 ⁽⁹⁾ | 8.80 | 9.46 |
| 291 | 191 | 266 | 253 | 125 | (53) |
| (252) | (53) | (79) | (23) | (8) | (12) |
| 5 | 21 | 5 | 46 | - | 47 |
| 17 | (62) | - | - | (10) | (9) |
| 153 | 11 | 80 | - | - | - |
| (57) | (65) | (207) | (202) | (52) | (27) |
| - | (6) | (6) | - | - | (5) |
| 14 | 1 | 1 | 134 | 2 | 1 |
| - | - | - | - | - | - |
| (19) | (13) | (48) | (17) | - | - |
| 152 | 25 | 12 | 191 | 57 | (58) |
| 300 | 148 | 123 | 111 | (65) | (122) |
| 7.8 | 5.5 | 10.2 | 8.7 | 0.5 | (4.2) |
| 10.2 | 5.9 | 13.9 | 12.2 | (6.8) | (17.0) |
| 27/73 | 25/75 | 28/72 | 35/65 | 50/50 | 50/50 |
| 13 | 13 | 47 | 17 | 4 | - |
| 9 | - | - | - | - | - |
| 0.09 | - | - | - | - | - |
| 107.3 | 105.2 | 105.1 | 104.9 | 81.0 | 80.4 |
| 11,732 ⁽⁸⁾ | 12,076 ⁽⁸⁾ | 12,356 ⁽⁸⁾ | 13,120 ⁽⁸⁾ | 11,951 | 12,753 |
| 11,993 | 11,961 | 11,800 | 11,735 | 11,371 | 11,026 |
| 147 | 142 | 141 | 141 | 131 | 129 |

- Effective January 1, 2001, the Corporation adopted the Accounting Standard concerning Earnings per share (See Note 11(d)). The new standard was applied to 2001 and 2000 only. Prior years were not restated.
- Effective January 1, 2000, the Corporation adopted the Accounting Standards concerning Employee future benefits and Income taxes (see Notes 14 and 2). The new standards were applied retroactively without restatement of prior years.
- Effective January 1, 1999, the calculation of Cash and cash equivalents excludes Bank indebtedness. 1998 figures have been restated.
- Effective January 1, 1995, Accounting Standards require that the Corporation proportionately consolidate all joint venture investments. 1994 figures were restated; 1993 and prior years were not restated since the financial information required is not reasonably determinable.
- After adding back interest on long-term debt (net of tax) to net earnings (loss).
- After preferred dividends.
- No dividends on preferred shares were declared in the first three quarters of 1993, or in the year 1992. Dividends declared – preferred in 1995, 1994, and 1993 include payment of arrears.
- The average number of employees of Stelco Inc., its wholly owned business units, and wholly owned subsidiaries was 11,768 in 1994, 11,437 in 1995, 11,141 in 1996, 10,763 in 1997, 10,649 in 1998, 10,193 in 1999, 9,922 in 2000, 9,278 in 2001, and 8,890 in 2002.
- Reflects the exercise of 22,200,000 Common Share Purchase Warrants.

Directors

James C. Alfano

President and
Chief Executive Officer
Stelco Inc.
A director since 1996
Hamilton, Ontario

John E. Caldwell

Corporate Director
A director since 1997
Toronto, Ontario

William P. Cooper

President and
Chief Executive Officer
Cooper Construction Limited
A director since 1989
Oakville, Ontario

Peter J. Dey

Partner
Osler, Hoskin & Harcourt
A director since 2002
Toronto, Ontario

Richard Drouin

Corporate Director
McCarthy Tétrault LLP
A director since 1996
Quebec City, Quebec

Gary J. Lukassen

Corporate Director
A director since 2002
Mississauga, Ontario

Douglas W. Mahaffy

President and
Chief Executive Officer
McLean Budden Limited
A director since 1993
Toronto, Ontario

The Hon. Barbara J. McDougall

President and Chief Executive Officer
The Canadian Institute
of International Affairs
A director since 1999
Toronto, Ontario

Peter J. Nicholson

Special Advisor to the Secretary General
Organisation for Economic
Co-Operation & Development
A director since 1997
Paris, France

Courtney Pratt

President and Chief Executive Officer
Toronto Hydro Corporation
A director since 2002
Toronto, Ontario

Frederick H. Telmer

Chairman
Stelco Inc.
A director since 1989
Burlington, Ontario

Officers and Executives

Frederick H. Telmer

Chairman

James C. Alfano

President and
Chief Executive Officer

Mark C. Steinman

Executive Vice President and
Chief Financial Officer

G. Blair Cowper-Smith

Corporate Secretary and
Special Counsel

Marcel Francoeur

Senior Vice President – Operations

William G. Missen

Senior Vice President – Commercial

Brian W. Warry

Vice President –
Purchasing, Raw Materials,
and Pipe Operations

William E. Vaughan

Corporate Controller

Timothy F. Huxley

Vice President – Corporate Affairs

Colin Osborne

Vice President – Stelco Hamilton

Corporate office**Stelco Inc.**

P.O. Box 2030
 Hamilton, Ontario L8N 3T1
 Tel: (905) 528-2511
 Fax: (905) 577-4412
 Internet address:
 www.stelco.ca or www.stelco.com
 Courier address:
 100 King Street West
 Hamilton, Ontario L8P 1A2

Stelco Integrated Steel Business**Stelco Hamilton**

P.O. Box 2030
 Hamilton, Ontario L8N 3T1
 Colin Osborne
 Vice President
 Tel: (905) 527-8335
 Fax: (905) 308-7002

Stelco Lake Erie

General Delivery
 Nanticoke, Ontario N0A 1L0
 Jack E. DiCosimo
 General Operations Manager
 Tel: (519) 587-4541
 Fax: (519) 587-7705

Subsidiary companies, wholly owned**Stelco-McMaster Ltée**

P.O. Box 249
 Contrecoeur, Quebec J0L 1C0
 Angelo Grandillo
 President and
 Chief Executive Officer
 Tel: (450) 587-2012
 Fax: (450) 587-1101

AltaSteel Ltd.

P.O. Box 2348
 Edmonton, Alberta T5J 2R3
 Peter M. Ouellette
 President and
 Chief Executive Officer
 Tel: (780) 468-1133
 Fax: (780) 468-7335

Stelwire Ltd.

P.O. Box 2030
 Hamilton, Ontario L8N 3T1
 Bernard M. Guay
 Vice President and
 General Manager
 Tel: (905) 528-9473
 Fax: (905) 577-4409

Stelfil Ltée

303 St. Joseph Blvd.
 Lachine, Quebec H8S 2K9
 Bernard M. Guay
 Vice President and
 General Manager
 Tel: (514) 367-2424
 Fax: (514) 367-2408

Stelpipe Ltd.

P.O. Box 1010
 Welland, Ontario L3B 5Y6
 J. E. Fry
 General Manager
 Tel: (905) 735-7473
 Fax: (905) 735-9069

Welland Pipe Ltd.

P.O. Box 99
 Welland, Ontario L3B 5P2
 David S. Hunter
 General Manager
 Tel: (905) 735-8338
 Fax: (905) 735-4387

CHT Steel Company Inc.

300 Newkirk Road
 Richmond Hill, Ontario L4C 4Y8
 Richard E. Taylor
 Vice President and
 General Manager
 Tel: (905) 884-5000
 Fax: (905) 884-7956

Stelco USA, Inc.

2855 Coolidge Hwy., Suite 203
 Troy, Michigan
 U.S.A. 48084
 Lincoln S. Simpson
 Vice President and
 General Manager
 Tel: (248) 649-3460
 Fax: (248) 649-1104

Ontario Eveleth Company,
 Minnesota
 Ontario Hibbing Company,
 Minnesota
 Ontario Tilden Company,
 Michigan
 Stelco Holding Company,
 Delaware
 Stelco Coal Company,
 Pennsylvania

Other offices**Quebec Sales Office**

P.O. Box 249
 Contrecoeur, Quebec J0L 1C0
 Tel: (450) 587-2266
 Fax: (450) 587-2272

Windsor Sales Office

4520 Rhodes Drive, Unit 100
 Windsor, Ontario N8W 5C2
 Tel: (519) 251-1050
 Fax: (519) 251-1650

Joint ventures

| Iron Ore | % owned | Other | % owned | | % owned |
|------------------------------------|---------|------------------------------------|---------|--------------------------------------|---------|
| Wabush Mines, Nfld. & Que. | 44.6 | Z-Line Company, Ont. | 60.0 | D.C. Chrome Limited, Ont. | 50.0 |
| Hibbing Development Company, Minn. | 24.1 | Baycoat, Ont. | 50.0 | Camrose Pipe Company, Alta. | 40.0 |
| Eveleth Mines L.L.C., Minn. | 15.0 | Fers et Métaux Recyclés Ltée, Que. | 50.0 | Arnaud Railway Company, Que. | 44.6 |
| Tilden Mining Company L.C., Mich. | 15.0 | (A corporate joint venture | | Wabush Lake Railway Company, | |
| Ontario Iron Company, Minn. | 10.0 | of Stelco-McMaster Ltée) | | Limited, Nfld. | 44.6 |
| Hibbing Taconite Company, Minn. | 6.7 | MOLY-COP Canada, B.C. | 50.0 | Knoll Lake Minerals Limited, Nfld. | 26.0 |
| | | (A partnership of AltaSteel Ltd.) | | Northern Land Company Limited, Nfld. | 22.3 |
| | | GenAlta Recycling Inc., Alta. | 50.0 | Twin Falls Power Corporation | |
| | | (A corporate joint venture | | Limited, Nfld. | 7.6 |
| | | of AltaSteel Ltd.) | | | |

Shares

The Series A and Series B Convertible Common Shares are listed on the Toronto Stock Exchange. The rights and privileges of each class of shares are set out in the notes to the consolidated financial statements in this Annual Report.

At December 31, 2002, there were 7,570 registered holders of common shares. Approximately 96% of the Corporation's issued common shares were held by shareholders with Canadian addresses.

Quarterly comparison (in millions except as indicated*) (Unaudited)

| | Quarter 1 | | Quarter 2 | | Quarter 3 | | Quarter 4 | |
|---|------------|--------|-----------|--------|-----------|--------|-----------|--------|
| | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 | 2002 | 2001 |
| Net sales | \$ 638 | 637 | 759 | 679 | 705 | 645 | 682 | 600 |
| Operating earnings (loss) | \$ (33) | (76) | 21 | (42) | 39 | (15) | 31 | (31) |
| Net earnings (loss) | \$ (32) | (60) | 5 | (67) | 19 | (19) | 22 | (32) |
| Earnings (loss) per common share [†] | | | | | | | | |
| – basic | *\$ (0.33) | (0.59) | 0.02 | (0.65) | 0.16 | (0.19) | 0.19 | (0.31) |
| – fully diluted | *\$ (0.33) | (0.59) | 0.02 | (0.65) | 0.16 | (0.19) | 0.18 | (0.31) |
| Series A Common Shares | | | | | | | | |
| High | *\$ 5.90 | 4.54 | 6.70 | 5.70 | 5.24 | 5.14 | 4.65 | 3.59 |
| Low | *\$ 3.35 | 3.15 | 4.60 | 3.30 | 3.30 | 2.91 | 3.10 | 2.05 |
| Trading volume | 60 | 29 | 36 | 35 | 24 | 13 | 24 | 36 |

[†]Earnings (loss) per common share is calculated using the average number of common shares outstanding during the quarter. Earnings (loss) per common share for the year is calculated using the average number of common shares outstanding during the year (See Note 11).

Dividends

Dividends on common shares were last paid on February 1, 2001. No dividends were declared in 2002 or 2001.

Transfer agent

The Series A and Series B Convertible Common Shares are transferable through the Corporation's Transfer Agent, CIBC Mellon Trust Company, at their offices in Toronto, Montreal, and Vancouver.

Investor Inquiries

Questions and comments regarding Stelco Inc. or any information appearing in the Annual Report, Quarterly Reports, or any other corporate publication may be directed to:

Stelco Inc.
Office of the Secretary,
P.O. Box 2030
Hamilton, Ontario L8N 3T1
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Ext. 4985
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Pour obtenir un exemplaire
de la version française de ce
rapport, veuillez écrire à :
Stelco Inc.
Bureau du Secrétaire
C.P. 2030
Hamilton, Ontario L8N 3T1

The Corporation's annual and quarterly reports,
media releases, and other investor information may
be found at Stelco's website: www.stelco.com.



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Stelco Inc. P.O. Box 2030, Hamilton, Ontario, Canada L8N 3T1

